

EXPORT PROMOTION

HEARING

BEFORE THE

SUBCOMMITTEE ON FOREIGN COMMERCE AND
TOURISM

OF THE

COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION

UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

EXPORT PROMOTION

MAY 24, 1990

Printed for the use of the
Committee on Commerce, Science, and Transportation



U.S. GOVERNMENT PRINTING OFFICE

32-673 O

WASHINGTON : 1990

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

ERNEST F. HOLLINGS, South Carolina, *Chairman*

DANIEL K. INOUE, Hawaii	JOHN C. DANFORTH, Missouri
WENDELL H. FORD, Kentucky	BOB PACKWOOD, Oregon
J. JAMES EXON, Nebraska	LARRY PRESSLER, South Dakota
ALBERT GORE, JR., Tennessee	TED STEVENS, Alaska
JOHN D. ROCKEFELLER IV, West Virginia	ROBERT W. KASTEN, JR., Wisconsin
LLOYD BENTSEN, Texas	JOHN MCCAIN, Arizona
JOHN F. KERRY, Massachusetts	CONRAD BURNS, Montana
JOHN B. BREAUX, Louisiana	SLADE GORTON, Washington
RICHARD H. BRYAN, Nevada	TRENT LOTT, Mississippi
CHARLES S. ROBB, Virginia	

KEVIN G. CURTIN, *Chief Counsel and Staff Director*

WALTER B. MCCORMICK, JR., *Minority Chief Counsel and Staff Director*

SUBCOMMITTEE ON FOREIGN COMMERCE AND TOURISM

JOHN D. ROCKEFELLER IV, West Virginia, *Chairman*

ERNEST F. HOLLINGS, South Carolina	CONRAD BURNS, Montana
RICHARD H. BRYAN, Nevada	BOB PACKWOOD, Oregon

CONTENTS

Opening statement by Senator Rockefeller	Page 1
--	-----------

LIST OF WITNESSES

Bergsten, C. Fred, director, Institute for International Economics	3
Hiner, Glen H., senior vice president, General Electric Plastics	46
Johnson, Nancie, manager, international trade and investment, E.I. DuPont	53
Prepared statement	55
Schwab, Susan, Assistant Secretary of Commerce and Director General, U.S. and Foreign Commercial Service, Department of Commerce	10
Prepared statement	13
Van Fleet, Mark, director, export promotion, U.S. Chamber of Commerce	65
Prepared statement	66

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

American Business Council of the Gulf Countries, statement	83
Bush Administration's Trade Strategy, fact sheet	92
National Forest Products Assn., statement	88

EXPORT PROMOTION

THURSDAY, MAY 24, 1990

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON FOREIGN COMMERCE AND TOURISM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:19 a.m., in room SR-253, Russell Senate Office Building, Hon. John D. Rockefeller IV (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: Ivan Schlager, staff counsel and Fiona Branton, minority staff counsel.

OPENING STATEMENT BY SENATOR ROCKEFELLER

Senator ROCKEFELLER. The hearing will come to order. I am pleased to call to order this hearing on export promotion. Few issues of the past year have generated as much debate as has our current trade imbalance.

From my experience as a governor, and here in the Senate, I have learned first hand that export industries mean high paying, highly skilled manufacturing jobs. Fourteen percent of the workers in West Virginia are employed by manufacturing businesses who actively engage in exporting.

In the 1960's, the French author Jean Jacques Servan-Schreiber wrote a widely acclaimed book called "The American Challenge." Servan-Schreiber predicted that American business would dominate European and world markets. What Mr. Servan-Schreiber failed to predict was the reckless and irresponsible fiscal policies that we pursued in the early 1980's. These policies drove the value of the dollar to stratospheric heights and effectively priced out many of our exports. While the governments of our international trading partners provided every type of assistance imaginable from marketing analysis, low interest loans to direct subsidies for their exports, the United States responded by slashing the funding for the agencies engaged in export promotion. Clearly, in the last 10 years, the Federal Government has not provided the proper leadership on this crucial issue.

But, as John F. Kennedy once said, "Our task is not to fix the blame for the past, but to fix the course for the future." And that is why I called this hearing. I want to focus on what the Government, together with the private sector, can do to meet the challenge of expanding our export markets. Currently, our export position is not as bleak as it was in the dark days of the 1980's, when the trade deficit exploded to \$150 billion. Since the dollar began to depreciate in 1986, U.S. exports responded. In my own State of

West Virginia, for example, the value of export-related shipments exceeds \$3 billion. West Virginia now ranks fifth among the 50 States in the percentage of manufactured goods exported overseas. Our trade deficit with Europe has disappeared and new opportunities now present themselves in Eastern Europe. However, unfair barriers still keep quality American goods out of many markets, and our trade deficit with Japan remains at an unacceptably high level.

American business is now meeting the challenge of competition in an interdependent world economy. However, we can do better. Many small and medium size businesses, because of their inadequate resources and lack of sufficient information and financing, have not taken full advantage of the opportunities for growth through exporting.

I look forward to the testimony of my old friend, Sue Schwab, who can relate to us the programs the United States and Foreign and Commercial Service has undertaken to meet the challenge of expanding export markets for small and medium size businesses. I am also interested in hearing from Mr. Mark Van Fleet, the Director of Export Promotion at the U.S. Chamber of Commerce, about the experience of his members who have sought to export their products and services.

In addition, I want to welcome Mr. C. Fred Bergsten, Director of the Institute for International Economics. He has written extensively on the subject of export promotion, as well as other important international economic issues. Mr. Bergsten previously served as Assistant Secretary of the Treasury for International Economic Affairs during the Carter administration.

Finally, I would like to welcome our panel from the chemical and plastics industries. The chemical and plastics industries are an example of industries that have met the challenge of foreign competition. I would like to welcome Nancie Johnson from Dupont, a company that has made tremendous strides in the field of export promotion. In addition, it gives me great personal pleasure to introduce my friend and fellow West Virginian, Glen Hiner of General Electric Plastics. I came to know Mr. Hiner in connection with the fine work he did at GE's plastics plant in Parkersburg, WV. It is a model of what American industry, working together with its employees, can do to produce quality products for export markets. I take pride in announcing that the Parkersburg plant was recently awarded the prestigious "E" award by the Department of Commerce for excellence in exporting.

After calling on any other members of the subcommittee for any opening remarks, I shall call on my friend, Sue Schwab, Assistant Secretary of Commerce and the Director General of the United States and Foreign and Commercial Service.

Mr. Bergsten, what time is your son graduating?

Mr. BERGSTEN. Soon enough that I have to be on my way to the airport in about 20 minutes.

Senator ROCKEFELLER. I will make my statement and you go ahead and make yours. Then we will engage in some conversation and I will make my statement later on.

**STATEMENT OF C. FRED BERGSTEN, DIRECTOR OF THE
INSTITUTE FOR INTERNATIONAL ECONOMICS**

Mr. BERGSTEN. Thank you very much, Mr. Chairman. I appreciate the opportunity to be here, and I apologize for my time constraint.

Let me just say how delighted I am you are having these hearings. The United States has an enormous need for export expansion and, therefore, export promotion. I am delighted to see that just yesterday the President realized that fact, seemingly for the first time, and created a new Trade Promotion Coordination Committee in the administration to address these issues. I think that move, combined with the efforts in your committee and, I hope, the contribution of additional financial resources of the government to the export promotion effort, could launch a major turnaround in this country.

My first point is that the U.S. needs an enormous expansion of its exports. The trade deficit is still running in excess of \$100 billion. It will probably start rising again later this year, and over the long run, the big increase in oil imports that is inevitable means that we still have a major adjustment problem. If we do not get our trade balance under control, we risk a financial hard landing. We face the risk of continued high interest rates to attract the capital needed to finance the deficit, and we clearly risk a resurgence of trade protection.

I think we ought to set a national goal of eliminating—eliminating—the deficit in our current account over the next three or four years. That would require a trade improvement, mainly in manufactured goods, of something like \$150 billion or 3 percent of GNP. We are not going to get that by restricting imports unless we want to have a depression. The only way to do it is by expanding exports, and that is why export promotion has to be at the top of our agenda.

In addition, our domestic economy is growing sluggishly and looks like it will continue to grow sluggishly over the next few years.

Senator ROCKEFELLER. Fred—so that you can get your plane on time, why don't we both just talk to each other?

Mr. BERGSTEN. Whatever you say.

Senator ROCKEFELLER. I totally agree with you. You cannot shut off imports. On the other hand, you cannot expand exports unless countries are willing to take in your products. And in the case of Japan, they do not take them in. Now, we can sit here and theorize all day long and talk about the fact that Americans are exporting more. West Virginia is exporting more than before. When you do not have market opening possibilities for example, in Japan, how do you defend that?

Mr. BERGSTEN. First of all, there is a big part of the world other than Japan, and of course our markets in Canada and Europe are growing rapidly, and that is one part of the answer.

But Japan is critical. I just got back yesterday morning from a quick trip to Japan, and I am actually modestly encouraged. Japanese imports are now increasing very rapidly worldwide. More than 50 percent of their imports now are manufactures. Our ex-

ports there last year went up four and a half times as fast as our imports. Over the last two years, our exports to Japan were up six times as fast as our imports from Japan.

True, the base was low, and the expansion needs to be much greater than it has been. But from talks with both Japanese government officials and Japanese industrialists, I come back with the view that they understand exactly what you said, and that they are, indeed, making some major efforts at both the corporate level and the government level to increase their imports from the United States very rapidly. I think we are beginning to see it in the numbers. I think we will see more.

Senator ROCKEFELLER. Now, you are saying that they are making at the corporate and the government level greater efforts in Japan to accept more imports. If you are right, Mr. Bergsten, that is going to be the first time in 2,000 years that they have acted in that manner. What is so convincing about what the Japanese are doing to open up their markets? I am not convinced that they are. The people from where I come from are not convinced that they are. What do you see?

Mr. BERGSTEN. I think there are two changes. One is in the domestic politics of Japan. The Structural Impediments Initiative has had the enormously beneficial effect of opening Japanese eyes to the folly of their own trade policy, the folly of their own closed markets, and the anti-consumer nature of their trade policy.

In addition, the Super 301 provision and other tough U.S. initiatives of the last couple of years have got them scared. They realize that there are very severe risks in terms of their access to our markets, the stability of their overall relationship with us, and the stability of their overall economic fortune.

I think the combination of changes in Japanese domestic politics, an awareness of the adverse effects on their own economy of their closed trade policies, and the fact that they now finally believe the U.S. is serious have caused them to begin at last significantly to change their ways. I want to underline that. I am not saying it is finished yet, but I do see some movement now in quite a helpful direction.

Senator ROCKEFELLER. So, you would say that a tough trade policy in fact aimed at Europe and Japan, but primarily at Japan, that the Congress did, in fact, pass is in effect having that impetus on Japan to open its market. And you are also saying that absent the congressional action on the Trade Policy Act, that the Japanese would not be reacting in any way to open their markets as is their custom?

Mr. BERGSTEN. Absolutely. I think the combination of the congressional pressure and the way the administration, to its credit, has largely been carrying out congressional mandates is having now a decided impact.

Senator ROCKEFELLER. And on that you would include leaving them off of the designated list of unfair traders.

Mr. BERGSTEN. Again, I think the administration played it right, to put them on the list in 1989, and to take them off the list this time as a reward for good behavior. But I would add—

Senator ROCKEFELLER. But good behavior that you say you cannot yet see.

Mr. BERGSTEN. Well, you can see some of it, and let me come back to that.

But, I wanted to add, we should keep them on notice that unless the good behavior not only continues but accelerates, they go back on the list next time.

Now, the evidence is that the Japanese external surplus, not so much bilaterally with us but globally, has come down almost 50 percent, which is more than most analysts, most economic models, most forecasts would have suggested it would. There has been some surprise about that. Why has the Japanese trade surplus come down a lot, particularly in the last couple of quarters?

Again, I think there is a recognition in Japan now that they need to increase their openness to trade, and directly expand their imports from around the world, including from the United States.

There is one worrisome note, which is that the yen over the last year has weakened again against the dollar, and that is creating price incentives for the trade balance to go the wrong way. I think our own Treasury and the other members of the Group of Seven have been derelict over the last year, particularly at the G7 ministerial meetings in April and May, in not taking decisive action to get that going again.

Senator ROCKEFELLER. You mean dollar devaluation.

Mr. BERGSTEN. If you asked me right now what is the major impediment to this continued rapid growth of U.S. exports worldwide, but particularly to Japan, I would tell you it is the yen-dollar exchange rate. The dollar has not been a strong currency over the last year or so. In fact, I think it is pretty close to competitive levels against the European currencies and others. The yen has lately been the weakest currency in the world despite the fact that Japan is the strongest economy in the world. That has a lot to do with psychological factors and policy problems in Japan. But the G7 and our own government have been derelict in not working more decisively to change that situation.

Senator ROCKEFELLER. Senator Danforth, you interrupt as you want to.

You talked a lot about dollar devaluation, and you preach dollar devaluation, in fact, but the trade deficit is the same. We are still at \$50 billion.

Mr. BERGSTEN. Mr. Chairman, the U.S. trade deficit has come down globally from \$150 billion to about \$100 billion.

Senator ROCKEFELLER. I'm talking Japan.

Mr. BERGSTEN. Well, but you have to talk global.

With respect to Japan, I want to alert you to a particular problem. When our bilateral imbalance with Japan peaked in 1987, our imports from Japan were three times as great as our exports to Japan, \$75 billion to \$25 billion. What that means in purely statistical terms is that our exports to Japan have to grow at a rate three times as fast as our imports from Japan grow just to keep even. Now, last year our exports to Japan grew four and a half times as fast as our imports grew, 18 percent to 4 percent. Yet the initial imbalance was so huge that it only cut the trade deficit with Japan by \$4 billion, about 5 percent.

Bringing the bilateral imbalance down is a herculean task given the initial starting point. That is obviously not to say that you

should not try, that we should not make an effort, but only to say that we are probably going to be disappointed in the absolute numbers by which the deficit declines given that horrible starting point. Nevertheless, there has been progress. When you get export growth of 18 versus import growth of 4, or, over the last three years, export growth of 60 versus import growth of 10, by most criteria you are doing pretty well at rectifying the problem.

Senator ROCKEFELLER. Senator Danforth? Fred Bergsten has to leave in a few minutes.

Senator DANFORTH. Okay. Super 301 was just a two year program. Do you think we should extend it?

Mr. BERGSTEN. Oh, I think you have to extend it, Mr. Chairman—Mr. Chairman and Senator Danforth.

Senator DANFORTH. That is a prediction of the future I take it, Fred.

Mr. BERGSTEN. I don't mind letting implications slide in if you want to take them that way.

I think you have to continue it. To drop it now would release pressure just at the time when, as I indicated in my initial remarks, we need to step up the pressure because our need for export expansion, opening of markets, bringing our external balance into account is still enormous.

Senator DANFORTH. Just one other question. When we deal, particularly with Japan, some say that it really is not so much government policy that we are dealing with, but it is a resistance to imports which is embedded in the country, and it is cultural, and it involves tradition. Is the government capable of turning this around, or are we dealing with something that no matter what statutes we have, it is just an impossible situation?

Mr. BERGSTEN. I think you are dealing with a deep-seated and long-term problem. On the other hand, a very large share of Japanese imports does come in through a relatively small number of Japanese companies. And if those companies can be convinced that it is now "import or die" for the country, rather than the traditional "export or die," you can make a big dent in that long-term, underlying problem.

And what I was suggesting just as you came in is that after a trip I took to Japan earlier this week—I was just there on Monday and Tuesday—I am convinced that they are now seized of the problem and are seriously trying to change. Indeed, I think Japanese companies are actively responding to this import promotion program that their government has launched, are in fact telling their purchasing agents to buy foreign wherever they can, and are making big efforts to do that. And it may even explain some of this rapid decline in their global trade surplus that we have seen now over the last six months, which is hard to explain by any normal economic model.

Senator DANFORTH. Thank you.

Senator ROCKEFELLER. What would you say, Fred Bergsten, to the 18,000 West Virginians whose jobs depend upon exports? What would you say that the U.S. Government ought to be doing?

Mr. BERGSTEN. I would say three or four things. The first, of course, at the macroeconomic level, is to make sure the exchange

rate is competitive, make sure our domestic economy is not so overheated that we do not have any goods available to sell abroad.

But beyond that, I think we have to recognize that the United States faces a marketing reentry problem. Toward the end of the 1970s, we had a real export boom. In the late 1970s, the U.S. had export-led growth. In the face of the second oil shock, we moved from current account deficits that were at a record at the time, in 1977-1978, to current account surpluses in 1980-1981, right in the teeth of the second oil shock, which cost us an enormous rise in oil imports. So we can do it.

Then came the first half of the 1980s, when the dollar soared by 60 percent and priced our goods out of world markets. The administration of the day totally ignored the problem. American industry had a cushy domestic market during the recovery and everything conspired against exports. So today we have a marketing reentry problem.

Therefore, in addition to all the macroeconomic concerns, it seems to me the government has to take the lead in pushing, pulling, and prodding American industry to again enter the external markets. I think this new Trade Policy Coordinating Committee within the administration provides it a handle to do that. But I think the administration and the Congress are also going to have to devote some money to the export promotion effort.

Senator ROCKEFELLER. But that's the point, isn't it? As all through the 1980s, the administration has been cutting money on everything that the government does to promote exports—

Mr. BERGSTEN. Right.

Senator ROCKEFELLER [continuing]. Just precisely at the time when we are trying to learn the lesson that it is not good enough to capture markets around the country, you have to export internationally. One of the witnesses today is trying to do her best, but she is underfunded.

Mr. BERGSTEN. To me, one of the greatest ironies in our recent history was that the Export-Import Bank ran out of money in the summer of 1988 in the midst of an export boom when we needed another \$150 billion in net export expansion. That is unconscionable and it is a fundamental national error. The Eximbank in the late 1970s expanded from about half a billion a year to \$5 billion a year and was part and parcel of that export-led growth I talked about.

You need more money for the Eximbank, more creative use of the guarantee program. I think you need to change its accounting treatment in the budget. I think you need to set up—Mr. Chairman, here is a precise proposal for the Congress—an export promotion function in the budget. The Eximbank and other programs are now lumped in with foreign aid, the World Bank, et cetera, and are sort of a stepchild in the whole budget process. Set up an export promotion function within the international affairs part of the budget, or as a wholly separate function with the Eximbank and related programs, including the next witnesses', which will then focus on the need for devoting some resources to that area.

Senator ROCKEFELLER. Basically what you have was a bank that was started in 1934 as an effort to help this country come out of a depression, through exports.

Mr. BERGSTEN. Yes.

Senator ROCKEFELLER. And heaven knows how little people knew about exports in those days. So, that bank peaks at \$5 billion in 1981, and it is now down to \$1 billion.

Mr. BERGSTEN. Or less, yes.

Senator ROCKEFELLER. And that is just insufficient. That is just not going to get the job done for the country.

Mr. BERGSTEN. It is moving in the opposite direction of a really urgent national need.

Senator ROCKEFELLER. Do you sense that through the business community in this country that the instinct for exporting, not just the 600 companies that export 70 percent of everything, the big ones, but for the small business, and medium size, the kind that dominate the state that I represent—is their instinct for exporting increasing?

Mr. BERGSTEN. I do not see much expansion in the export mentality yet, and that is why I think the government has to step out and take the lead.

The Eximbank not only should do its substantive programs; it should be the cheerleader, the rallying point, the bully pulpit, telling companies to get out and export.

Now, the Secretary of Commerce obviously should make that his priority objective. He has a new committee. He has a new mechanism within the government. He and his colleagues in the government, including the Secretary of the Treasury, should be doing it.

Most of all, I think the President needs to make a national priority of the matter. The President needs to say to the country that exports are critical to our economic growth, to our international position.

Look at the world today. Security issues are declining rapidly in salience, thank God, with the end of the cold war and what is happening in Eastern Europe. Economics is going to go to the top of the agenda. Some of the people in the government say the United States will soon be the only superpower. They mean in military terms, to which I say, "You are probably right, but it may not be much comfort." We are going to be in a world of three superpowers, namely an economically united Europe, Japan, and the United States. We do not know who is going to be first, second, and third. What we do know is that if we do not compete economically in the future, we are not going to be able to hack it.

We had a military buildup in the 1980s because we feared the Soviet Union. We had better have an economic buildup in the 1990s because we better fear Japan and Europe. And this is the way to start.

Senator ROCKEFELLER. It is interesting. In West Virginia, among all of the 50 states, we rank fifth in the percentage of manufactured goods that are exported. Our state budget is about \$1.6 billion, \$1.7 billion. Our exports last year were \$3.1 billion. And you say, well, that was all coal. Well, \$1 billion of it was, but another \$1 billion for chemicals, a half a billion of metal products. There are all kinds of export opportunities. Our own people do not know that. Our own people tend to be small business people, and it seems to me until you can reach into that area, the small the middle size business persons, and get their instinct, as you call it, for export-

ing, more acute, we are just missing enormous opportunities in this country.

Mr. BERGSTEN. Right. We need to do some swapping of mentalities with the Japanese.

Senator ROCKEFELLER. But how do you do that? In other words, there is a small business in West Virginia. That person is not thinking about Japan, is not thinking about EC 1992, the European Economic Community. They are thinking about how they get by from week to week, month to month, pay their taxes and the rest of it. How do you create a mentality that says exporting is good for me, that I have to take certain risks and do certain things because this will help my profit margin?

Mr. BERGSTEN. Well, you obviously appeal to his bottom-line self-interest. You try to convey to him what I think is the correct economic outlook, that economic growth in the U.S. for the next few years and indeed in the foreseeable future is going to be pretty modest, 2 or 2.5 percent. Economies are going to be booming in both Europe and Asia, at rates of 4 or 5 percent or more. The growth markets in the world are abroad, not at home. That is the substance. They have to get that message to him.

I sincerely believe that if the government, literally starting with the President, would use the bully pulpit, make the case to the Nation that those are the facts and that the export markets are crucial to the country as a whole and to the individual firm, it would help. The business community—the Chamber of Commerce, the National Association of Manufacturers, and similar groups—has to be riding the export bandwagon.

But I think since your focus is government policy, I would come back and emphasize that, too. Unless the government indicates that exporting is a national priority, that it is willing to commit some resources to it, it will be very hard to convince others around the country, including small businessmen who are not export oriented, to go in that direction. So there has to be, first, a recognition here in Washington at the very top—generalizing what you and Senator Danforth obviously crusade for—but a recognition at the very top that it is a national priority and it is to be publicized as such.

Senator ROCKEFELLER. You probably have to go, but I cannot tell you how strongly I agree with you. It strikes me as absurd that when exports, as you indicated, are so promising for the future because the growth markets are, in fact, not here but overseas, which defines an export, that the government is not taking the lead, from the President right on down, to make that clear to people to know that their opportunities are overseas, that they can make money overseas, that they can put more people to work by being in the export business.

Mr. BERGSTEN. Let me mention, if I could, one specific suggestion, and then I am afraid I do have to run.

I think you in the Congress, if you cannot get the administration to do it, should take the initiative toward passage of what I would call an Export Promotion and Removal of Disincentives Act.

Senator ROCKEFELLER. And what would that do?

Mr. BERGSTEN. I think the follow-up to your Omnibus Trade Bill of 1988 should now be export promotion legislation which would

support the Eximbank, change its budgetary treatment, provide authorization for more funding for the Commerce Department's and other export expansion programs, and take a hard look, one by one, at the long list of U.S. programs that now are disincentives to our own exports: another look at the export controls, the foreign policy controls, the Foreign Corrupt Practices Act, the environmental controls, the short supply controls that prevent us from selling Alaskan oil. We have a long list of export disincentives with which we are shooting ourselves in the foot. I do not say that in every case those are wrong or that it should be exports above all other considerations. But we have never really taken a comprehensive look at the tens of billions of dollars worth of exports, I would guess, that we are denying ourselves by our own policies.

And so I would commend to the Congress an export promotion act that took a look at every one of those areas, to create new incentives and get rid of old disincentives. It would say to both our domestic population and the world as a whole that finally this country is serious about exports.

Senator ROCKEFELLER. Fred Bergsten, I appreciate very much your taking the time to be here. I hope that your son graduates with high honors.

Mr. BERGSTEN. Thank you very much, Senator.

Senator DANFORTH. Is he graduating from Central Methodist College in Fayette, Missouri, Fred?

Mr. BERGSTEN. No. I appreciate the plug, though, since that is my alma mater, and I am on the board of that fine institution. But he chose to go somewhere in Maine. So, I have to go into colder weather.

Senator ROCKEFELLER. Too bad for him.

Mr. BERGSTEN. Too bad for all of us.

Thanks very much.

Senator ROCKEFELLER. Sue Schwab is Assistant Secretary of Commerce and Director General of the U.S. and Foreign Commercial Service. Sue, you are testifying before two United States Senators who think that the government is fortunate that you work for the government. You worked with Senator Danforth for many years. You are an expert on trade, and you are tough in your policies on trade. And now you are trying to create a situation where we can export more of our products around the world, and you have a very difficult job. You are underfunded. And, Jack, you may want to say something also, but I am really glad that you are here. It is sort of our annual check-in with each other on the U.S. and Foreign Commercial Service.

Senator Danforth.

Senator DANFORTH. Well, I view her as a traitor.

STATEMENT OF SUSAN SCHWAB, ASSISTANT SECRETARY OF COMMERCE AND DIRECTOR GENERAL, U.S. AND FOREIGN COMMERCIAL SERVICE, DEPARTMENT OF COMMERCE

Ms. SCHWAB. Thank you, Mr. Chairman, Senator Danforth. It is good to be back.

Since I last appeared before your subcommittee, a great deal has happened in the trade promotion area, and we have a lot to report.

Since the last time I was here in November, just seven months ago, we have made a lot of progress both within the U.S. and Foreign Commercial Service at the Department of Commerce and, most important, with the presidential initiative announced yesterday in the Rose Garden.

Let me start by going through just a couple of issues. I have submitted for the record fairly extensive detailed testimony about all of the activities we have been engaged in since I arrived at the Commerce Department. It addresses a lot of the issues that you, Mr. Chairman, asked us about in November and that were raised at my confirmation hearing a little less than a year ago. I am just going to touch on a few of them, and then I would be delighted to respond to your questions.

Picking up, in essence, where we left off in November, with the strategic review I had talked about which the U.S. and Foreign Commercial Service is conducting, the surveys and analysis portion is essentially complete. We have drawn on the expertise of well over 500 individuals of the private sector, from state and local governments, and from our own field operations.

We have looked to better define our client base. We are looking at "infrequent exporters," the new to export, new to market companies, companies with the greatest potential for increasing U.S. exports per your discussion just now with Fred Bergsten. We have gone to that client base, examined it and looked at what their principal needs are. And then, obviously, looking at their needs compared to the information products and services that we in the U.S. and Foreign Commercial Service and the International Trade Administration at the Department of Commerce offer. We are now into the implementation phase of the strategic review.

As regards CIMS, our computer system for which I believe you have had at least three hearings—I think November was our third annual hearing on the status.

Senator ROCKEFELLER. Yes. We have frequent hearings about CIMS.

Ms. SCHWAB. Yes, there have been frequent hearings on our computer system. The technical review done by an independent outside firm, Price Waterhouse in this case, is complete, and combined with the findings of our strategic review, we have looked at various options for fixing CIMS. And, the most promising option at this stage is ironically the most simple, the most straightforward. We are looking at setting up a PC-based environment, office automation environment in all of our offices. And as you know, we have 68 domestic offices, district and branch offices, and over 125 overseas offices. With a PC-based office automation environment, and CD-ROM readers, we will become not just the principal supplier of export promotion information to the National Trade Data Bank, pursuant to the 1988 Trade Act, we will also become a customer, a client. We plan to receive that information back as part of our counseling activities. It is a very straightforward proposal.

The Secretary of Commerce and the Deputy Secretary of Commerce have spent a great deal of time—we have all spent a lot of time—and energy looking at this proposal. We hope we will be able to start implementing it in the not too distant future. We are currently going through a requirements analysis and cost-benefit anal-

ysis and all of the paperwork you need to go through before you contemplate a major procurement initiative like this.

In addition, we have completed and are using new resource allocation matrices, both on the foreign and domestic sides. These are matrices laying out the world: Domestically the principal criterion is export potential; Overseas, market potential for U.S. exports. We use these matrices on a day-to-day basis as we contemplate what we hope will be an expansion of our operation. They are also matrices we can and do use to implement contractions. We are trying to be more efficient, just as a general matter.

Other initiatives I will just mention briefly. The last time I was here, Senator Danforth raised issues related to Europe, and what have we done in Europe. Since I last appeared before you, the Commerce Department has committed to open up new commercial offices in Czechoslovakia and in East Germany. We have also opened up our new office at the U.S. mission to the EC, USEC Brussels, which was an issue that was raised.

Senator ROCKEFELLER. You have how many overseas offices then?

Ms. SCHWAB. In Brussels?

Senator ROCKEFELLER. No, in the world.

Ms. SCHWAB. In the world we have about 160 American officers abroad and about 470 national employees. We are in 65 countries.

Senator ROCKEFELLER. And that includes the two eastern European ones you mentioned?

Ms. SCHWAB. No. Those will be added this summer. The two eastern European offices will open this summer. We have an officer in Czech language training now. He will be going out next month or shortly thereafter. We also have an officer who is very fluent in German and who is now commuting between Frankfurt and East Berlin as he sets up to open the East Berlin office. We are very pleased about that.

Other initiatives, just to touch on them. We obviously have re-opened our office in Panama and are working very hard to build up U.S. business contacts, trade and investment activities with Panama.

In March, the Secretary of Commerce and his MITI counterpart in Japan reached an agreement on joint cooperative ventures between ourselves and MITI, JETRO and MIPRO to take them up on their import promotion program, and matching our new export promotion activities vis-a-vis Japan with their import promotion activities. I know you and the Governor of West Virginia led a very important trade mission to Japan, I believe in December. That is part of the kind of activity that we want to engage in.

[The statement follows:]

STATEMENT OF SUSAN C. SCHWAB, DIRECTOR GENERAL, U.S. AND FOREIGN COMMERCIAL
SERVICE, DEPARTMENT OF COMMERCE

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, THANK YOU FOR INVITING ME HERE TODAY. IT IS A PLEASURE TO BE HERE TO TESTIFY ON THE U.S. AND FOREIGN COMMERCIAL SERVICE AND ITS ROLE IN CARRYING OUT THE ADMINISTRATION'S COMMITMENT TO EXPORT DEVELOPMENT. YOUR INTEREST AND SUPPORT ARE VITAL COMPONENTS IN THE SUCCESSFUL ACHIEVEMENT OF OUR EFFORTS.

AT NO OTHER TIME IN THE HISTORY OF THE UNITED STATES HAS EXPORTING BEEN SO IMPORTANT TO THE HEALTH OF OUR ECONOMY. AT NO OTHER TIME HAS THE NEED FOR SUCCESS ON THE ECONOMIC FRONT BEEN SO VITAL A COMPONENT OF GLOBAL POLITICAL DEVELOPMENTS. EVEN SURVEYS OF PUBLIC OPINION WOULD HAVE US CONCLUDE THAT AMERICANS ARE NOW MORE CONCERNED WITH TRADE RELATED ISSUES THAN WITH THE THREAT OF WAR.

ECONOMIC BENEFITS OF EXPORTING

THIS HEIGHTENED CONCERN REFLECTS A GROWING RECOGNITION WITHIN OUR COUNTRY OF INCREASING GLOBAL ECONOMIC INTERDEPENDENCE. AS PRESIDENT BUSH HAS NOTED, "THE GROWTH OF COMMERCE, BOTH NATIONALLY AND INTERNATIONALLY, IS THE KEY TO GUARANTEEING THAT AMERICA'S MOST PRODUCTIVE AND PROSPEROUS DAYS ARE STILL AHEAD."

EXPORT DEVELOPMENT AND ASSISTANCE TO U.S. EXPORTERS ARE SOMETHING CLOSE TO THE HEART OF BOTH PRESIDENT BUSH AND COMMERCE SECRETARY MOSBACHER. THIS COMMITMENT COMES NATURALLY -- THEY WERE BOTH SUCCESSFUL BUSINESSMEN AND RECOGNIZE THE POWER OF THE INTERNATIONAL MARKETPLACE.

- 3 -

THEY SEE THE BROADER ROLE EXPORTS PLAY IN OUR ECONOMIC SECURITY, A CONSIDERATION AS FUNDAMENTAL AS OUR MORE TRADITIONAL DEFINITION OF "NATIONAL SECURITY." THEY SEE THE ENORMOUS POTENTIAL THAT INCREASED U.S. EXPORTS PORTEND FOR THE U.S. ECONOMY.

INDEED, U.S. ECONOMIC GROWTH HAS BECOME SO DEPENDENT ON EXPORTS OF BOTH GOODS AND SERVICES THAT, IN 1989, TOTAL EXPORTS OF GOODS AND SERVICES ACCOUNTED FOR NEARLY ONE-HALF (48 PERCENT) OF TOTAL U.S. GNP GROWTH -- NEARLY EQUALING THE CONTRIBUTION BY U.S. OUTPUT FOR DOMESTIC DEMAND.

AS WE LOOK AT LEVELS OF PARTICIPATION IN THE EXPORT MARKET BY U.S. BUSINESS, HOWEVER, IT IS CLEAR THERE IS ROOM FOR ADDITIONAL GROWTH. TODAY, ONLY 15 PERCENT OF U.S. EXPORTERS ACCOUNT FOR 85 PERCENT OF THE VALUE OF U.S. MANUFACTURED EXPORTS. ONE HALF OF ALL EXPORTERS SELL IN ONLY ONE FOREIGN MARKET. AND, LESS THAN 20 PERCENT EXPORT TO MORE THAN 5 MARKETS. OBVIOUSLY, THERE IS TREMENDOUS POTENTIAL FOR CURRENT EXPORTERS TO TAKE A HARDER LOOK AT WHERE THEY COULD EXPAND SALES.

AND SURELY, WE COULD EXPECT EVEN GREATER ECONOMIC GAINS, RESULTING IN IMPORTANT BENEFITS TO OTHER PARTS OF OUR ECONOMY, IF MORE FIRMS BECAME INVOLVED IN EXPORTING. AS ONE SUCCESSFUL EXPORTER REMINDED ME RECENTLY, "WE KNOW THAT WE HAVE GOT TO BE COMPETITIVE IN MANUFACTURING IN THE WORLD MARKET. IF WE COULDN'T COMPETE IN THE WORLD, WE COULDN'T COMPETE DOMESTICALLY."

GOVERNMENT / BUSINESS PARTNERSHIP

TO REALIZE THE ECONOMIC POTENTIAL OF A TRULY EXPORT- ORIENTED U.S. BUSINESS COMMUNITY, GOVERNMENT AND BUSINESS MUST WORK AS PARTNERS IN GAINING ACCESS TO AND ENTERING FOREIGN MARKETS. THE ADMINISTRATION SEES THE CRITICAL IMPORTANCE OF THIS PARTNERSHIP ROLE IN ASSISTING U.S. BUSINESS.

WE RECOGNIZE THE SCOPE OF THIS CHALLENGE FOR BOTH GOVERNMENT AND BUSINESS TO DELIVER ON THEIR RESPECTIVE ENDS OF THE BARGAIN: GOVERNMENT MUST BOTH NEGOTIATE A FAIR TRADING ARENA AND CREATE A DYNAMIC FEDERAL INFRASTRUCTURE TO ENABLE AMERICAN BUSINESS TO SUCCEED IN INTERNATIONAL MARKETS. AND, BUSINESS MUST COMMIT TO LONG-TERM INTERNATIONAL STRATEGIES AND TO PRODUCING PRODUCTS AND SERVICES OF THE HIGHEST POSSIBLE QUALITY.

TO UPHOLD ITS END OF THE PARTNERSHIP, GOVERNMENT MUST ALSO HAVE THE ABILITY TO RESPOND TO THE CHANGING NEEDS OF THE BUSINESS COMMUNITY. AS PART OF COMMERCE'S INTERNATIONAL TRADE ADMINISTRATION (ITA), THE U.S. AND FOREIGN COMMERCIAL SERVICE (US&FCS), HAS BEGUN TO TAKE STEPS TO ENSURE THAT OUR OWN PRODUCTS AND SERVICES MEET THESE NEEDS.

LATER IN MY TESTIMONY I WILL GO INTO MORE DETAIL AS TO WHAT THE US&FCS HAS UNDERTAKEN TO ENSURE THAT OUR PROGRAMS ADDRESS BUSINESS' NEEDS, SPECIFICALLY OUR RECENT STRATEGIC REVIEW AND ITS IMPLEMENTATION.

- 5 -

WHILE I APOLOGIZE FOR THE LENGTH OF MY TESTIMONY, WE HAVE ACCOMPLISHED MUCH SINCE I APPEARED BEFORE YOU LAST NOVEMBER. I CONSIDER THIS TOME TO BE SOMETHING OF A REPORT CARD!

OUR NEW PROACTIVE APPROACH AND OUR COMMITMENT TO A COORDINATED ITA EFFORT IS EVIDENT IN RECENT DEPARTMENT ACTIONS TO ADDRESS SOME OF THE EVOLVING OPPORTUNITIES FOR AMERICAN BUSINESSES IN EASTERN EUROPE. UNDER THE DIRECTION OF COMMERCE SECRETARY ROBERT MOSBACHER AND ITA UNDER SECRETARY J. MICHAEL FARREN, THE DEPARTMENT HAS PUT IN PLACE A MULTI-FACETED PLAN TO ASSIST BUSINESS.

JUST WEEKS AFTER THE BERLIN WALL CRACKED OPEN, COMMERCE OPENED AN EASTERN EUROPE BUSINESS INFORMATION CENTER (EEBIC) TO HELP U.S. COMPANIES WITH THE INS AND OUTS OF DOING BUSINESS IN THE REGION. SINCE ITS OPENING, THE CENTER HAS FIELDDED NO LESS THAN 11,000 BUSINESS INQUIRIES.

COMMERCE HAS ALSO SHARPLY INCREASED THE NUMBER OF TRADE FAIRS AND BUSINESS DELEGATIONS TO EASTERN EUROPEAN COUNTRIES AND HAS UTILIZED OUR NATIONWIDE FIELD STAFF TO HOLD LOCAL SEMINARS AND WORK WITH INTERESTED BUSINESSES THROUGHOUT THE COUNTRY. AND, BY THIS SUMMER WE WILL HAVE OPENED COMMERCIAL OFFICES IN CZECHOSLOVAKIA AND EAST BERLIN, AND WILL HAVE ADDED COMMERCIAL STAFF TO OUR OPERATIONS IN HUNGARY, POLAND AND ROMANIA.

- 6 -

THIS ADMINISTRATION IS DOING AND WILL CONTINUE TO DO EVERYTHING IT CAN TO ASSIST U.S. BUSINESS -- LARGE AND SMALL -- TO IMPROVE COMPETITIVENESS AND TO EXPAND AMERICAN EXPORTS.

EXPORT SERVICES AVAILABLE FROM THE US&FCS

AS THE LEAD GOVERNMENT AGENCY FOR PROMOTING AMERICA'S EXPORTS, THE ITA AND ITS PROGRAM AND MARKETING ARM, THE US&FCS, ARE CONSISTENTLY LOOKED TO BY U.S. FIRMS TO PROVIDE A WIDE RANGE OF EXPORTER SERVICES -- EXPORT COUNSELING AND MARKETING SUPPORT; ANALYSES OF FOREIGN MARKET CONDITIONS AND MARKET ACCESS IMPEDIMENTS; ASSESSMENT OF INDUSTRY COMPETITIVENESS; AND THE DEVELOPMENT OF MARKETING OPPORTUNITIES AND SALES ADVOCACY THROUGH EXPORT PROMOTION EVENTS AND TRADE SERVICES.

THE US&FCS OFFERS MANY SERVICES AND PROGRAMS TO HELP COMPANIES REACH THEIR EXPORT POTENTIAL. OUR EXPORT COUNSELORS ACROSS THE UNITED STATES AND AROUND THE WORLD, AS WELL AS THEIR WASHINGTON COUNTERPARTS, ARE EQUIPPED WITH AN ARRAY OF TOOLS TO ASSIST BUSINESS. THEY CAN:

- HELP A FIRM LOCATE NEW OVERSEAS MARKETS FOR ITS PRODUCTS AND SERVICES;
- HELP BUSINESSES LOCATE AND QUALIFY OVERSEAS AGENTS, DISTRIBUTORS, AND END-USERS;

- 7 -

- WALK BOTH NEW AND EXPERIENCED EXPORTERS THROUGH THE MAZE OF TRADE LAWS AND EXPORT CONTROL SAFEGUARDS; AND
- HELP FIRMS PROMOTE THEIR PRODUCTS AND SERVICES THROUGH A VARIETY OF CAREFULLY PLANNED MISSIONS, FAIRS AND OTHER EVENTS AROUND THE GLOBE.

US&FCS CAN TAKE A COMPANY THROUGH EACH PHASE OF EXPORTING: FROM MARKET EVALUATION TO ITS FIRST EXPORT SALE, TO EXPANDING INTO ADDITIONAL MARKETS. US&FCS HELPS MAKE OVERSEAS MARKETING LESS IMPOSING AND MORE AFFORDABLE. IN SOME CASES, AMERICAN COMPANIES CAN EVEN BEGIN TO EXPORT WITHOUT TRAVELING OFFSHORE.

FOR INSTANCE, FOR COMPANIES JUST TESTING THE EXPORT WATERS WE HAVE COMMERCIAL NEWS USA -- AN EXPORT MAGAZINE WHERE U.S. COMPANIES CAN ADVERTISE THEIR NEW PRODUCTS FOR AS LITTLE AS \$250. THE PUBLICATION, PUBLISHED 10-TIMES A YEAR, IS SENT TO MORE THAN 100,000 POTENTIAL AGENTS AND DISTRIBUTORS OVERSEAS. TYPICALLY, FIRMS REPORT RECEIVING 40 TRADE LEADS AND MAKING UPWARDS OF \$10,000 IN EXPORT SALES AS A RESULT OF A LISTING IN COMMERCIAL NEWS.

EACH YEAR OUR FOREIGN BUYER PROGRAM BRINGS CLOSE TO 74,000 INTERNATIONAL EXECUTIVES TO MAJOR U.S. TRADE SHOWS AND TO THE DOORSTEPS OF 3,000 U.S. FIRMS WHO PARTICIPATE IN THE PROGRAM. FOR EXAMPLE, LAST FALL BUYERS FROM 80 COUNTRIES WERE BROUGHT TO COMDEX '89 IN LAS VEGAS, THE WORLD'S LARGEST GATHERING FOR THE MINI AND MICRO COMPUTER INDUSTRIES.

- 8 -

ONE OF THE GREATEST ASSETS THE US&FCS HAS TO OFFER THE U.S. BUSINESS COMMUNITY, PARTICULARLY TO SMALLER FIRMS, IS ITS KNOWLEDGE OF EXPORTING AND ITS PRESENCE IN AND UNDERSTANDING OF FOREIGN MARKETS THROUGHOUT THE WORLD. ITA INFORMATION PRODUCTS AND SERVICES REFLECT THESE UNIQUE CHARACTERISTICS:

MATCHMAKER DELEGATIONS COMBINE THE BENEFITS OF A TRADE MISSION WITH THE ONE-ON-ONE ATTENTION THAT NEW OR UNSEASONED EXPORTERS NEED TO MAKE FOREIGN CONTACTS -- AND SALES. THESE DELEGATIONS, WHICH ARE GENERALLY COMPOSED OF SMALL GROUPS OF MARKETING EXECUTIVES, ARE DESIGNED TO MATCH PARTICIPANTS WITH POTENTIAL AGENTS, DISTRIBUTORS, LICENSEES, FRANCHISEES OR JOINT VENTURE PARTNERS. LAST YEAR, NEARLY 200 SMALL AND MEDIUM U.S. COMPANIES PARTICIPATED IN THE MATCHMAKER PROGRAM.

US&FCS COMPARISON SHOPPING SURVEYS ARE TAILORED PRODUCT-SPECIFIC MARKETING REPORTS WHICH COMPARE VARIOUS CHARACTERISTICS OF A U.S. PRODUCT WITH COMPARABLE FOREIGN PRODUCTS IN A GIVEN MARKET. AT THE HIGH END OF THE RANGE OF MARKET RESEARCH PRODUCTS WE OFFER, THE COMPARISON SHOPPER IS OFTEN A COMPANY'S LAST STOP BEFORE TAKING THE EXPORT PLUNGE.

TO HELP LOCATE FOREIGN PARTNERS, THE AGENT/DISTRIBUTOR SERVICE (ADS) PROVIDES A CUSTOMIZED SEARCH FOR QUALIFIED FOREIGN MARKETING REPRESENTATIVES, LOCAL FIRMS THAT HAVE EXAMINED THE U.S. FIRM'S PRODUCT LITERATURE AND HAVE EXPRESSED INTEREST IN REPRESENTING IT. THE US&FCS STRATEGIC REVIEW, WHICH I WILL GO INTO DETAIL LATER, HAS SHOWN THIS TO BE ONE OF THE MOST VALUABLE SERVICES WE OFFER.

- 9 -

AND, ONCE A U.S. FIRM HAS MADE CONTACT WITH A POTENTIAL FOREIGN PARTNER, OUR WORLD TRADERS DATA REPORT (WTDR) CAN HELP THE U.S. FIRM EVALUATE THAT PROSPECTIVE AGENT OR DISTRIBUTOR. THIS INCLUDES CHECKING BACKGROUND INFORMATION, THEIR STANDING IN THE LOCAL BUSINESS COMMUNITY, THEIR CREDIT WORTHINESS, AND THEIR OVERALL RELIABILITY AND SUITABILITY.

ALL OF THESE AND OTHER EXPORT INFORMATION PRODUCTS AND SERVICES ARE AVAILABLE TO U.S. BUSINESS THROUGH THE 47 DISTRICT OFFICES AND 21 BRANCH OFFICES OF THE US&FCS ACROSS THE COUNTRY AND FROM OUR COMMERCIAL OFFICERS IN 67 COUNTRIES AROUND THE WORLD.

LAST YEAR ALONE, OUR TRADE SPECIALISTS CONDUCTED MORE THAN 150,000 EXPORT COUNSELING SESSIONS WITH AMERICAN FIRMS; FULFILLED NEARLY 3,900 REQUESTS FOR ADS AND 2,500 FOR WTDR; AND ASSISTED IN THE PARTICIPATION OF NEARLY 5,000 FIRMS IN TRADE EVENTS. IN ALL, THE US&FCS ASSISTED 2,600 AMERICAN COMPANIES TO EITHER EXPORT FOR THE FIRST TIME OR MAKE A SALE IN A NEW MARKET, AND ASSISTED IN THE DEVELOPMENT OF 2,600 AGENT/DISTRIBUTOR AGREEMENTS AND JOINT VENTURES.

MR. CHAIRMAN, I HOPE THIS GIVES THE SUBCOMMITTEE AN OVERVIEW OF THE ASSISTANCE THE US&FCS PROVIDES TO AMERICAN EXPORTERS. I WOULD NOW LIKE TO GO OVER SOME OF THE INITIATIVES WE HAVE UNDERTAKEN OVER THE PAST 11 MONTHS TO ENSURE THAT WE ARE POSITIONED TO DO AN EVEN BETTER JOB FOR U.S. EXPORTERS IN THE 1990s.

STRATEGIC REVIEW

I AM PLEASED TO HAVE THIS OPPORTUNITY TO SHARE WITH YOU SOME OF THE INSTITUTION BUILDING EFFORTS AND TRADE PROMOTION INITIATIVES THE US&FCS HAS UNDERTAKEN SINCE THE INSTALLATION OF OUR NEW MANAGEMENT TEAM LAST JUNE. THESE WOULD NOT HAVE BEEN POSSIBLE WITHOUT THE STRONG SUPPORT OF COMMERCE SECRETARY MOSBACHER AND ITA UNDER SECRETARY FARREN.

WHEN SECRETARY MOSBACHER ASSUMED HIS POST AND ASSEMBLED HIS INTERNATIONAL TRADE TEAM, WE QUICKLY SAW A NEED TO START WITH A FUNDAMENTAL REEXAMINATION OF THE US&FCS. ABOVE ALL, WE RECOGNIZED THE NEED TO ESTABLISH A SOLID INSTITUTIONAL FRAMEWORK AND MANAGEMENT STRUCTURE -- AND, TO PUT INTO PLACE A FOCUSED EFFORT TO MEET A RAPIDLY CHANGING, DYNAMIC BUSINESS ENVIRONMENT.

SEVERAL WEEKS AGO THE US&FCS HAD ITS 10th BIRTHDAY, AND WE ARE CELEBRATING BY OPENING POSTS IN THE WORLD'S NEWEST EMERGING DEMOCRACIES. WE ARE READY AND COMMITTED TO SEEING THE US&FCS DEVELOP INTO A MATURE AND VITAL COMPONENT OF OUR NATION'S POSITION IN THE GLOBAL ECONOMY.

IN THE US&FCS, OUR PRIMARY INSTITUTION BUILDING ACTIVITIES HAVE CENTERED ON EFFORTS TO IMPROVE OUR STRATEGIC PLANNING AND OUR COMMERCIAL INFORMATION MANAGEMENT SYSTEM (CIMS) OPERATION.

- 11 -

RECENT TRADE PROMOTION INITIATIVES HAVE ALSO INCLUDED THE REOPENING OF POSTS IN PANAMA AND CZECHOSLOVAKIA, THE OPENING OF NEW POSTS IN EAST BERLIN AND THE U.S. MISSION TO THE EUROPEAN COMMUNITY (EC) IN BRUSSELS, AS WELL AS ENHANCED ACTIVITIES IN MAJOR AND EMERGING MARKETS, INCLUDING JAPAN AND EASTERN EUROPE.

OVERVIEW

I PARTICULARLY WELCOME THE CHANCE TO WALK THE SUBCOMMITTEE THROUGH WHAT WE BELIEVE HAS BEEN A FRANK, BUSINESS-LIKE EXERCISE IN INTERNAL ANALYSIS AND INDEPENDENT EVALUATION.

I REFER IN PARTICULAR TO US&FCS ACTIONS TAKEN IN PART AS A RESULT OF VARIOUS GENERAL ACCOUNTING OFFICE (GAO) REPORTS, INCLUDING THE JANUARY 1989 REPORT ON "THE PROBLEMS WITH COMMERCE'S EXPORT PROMOTION PROGRAMS," DEPARTMENT OF COMMERCE INSPECTOR GENERAL REPORTS, AND THE EXPRESSED CONCERNS OF VARIOUS CONGRESSIONAL COMMITTEES.

I WANT TO ASSURE YOU, ONCE AGAIN, THAT ADDRESSING ISSUES CONCERNING US&FCS MANAGEMENT AND CIMS REMAIN TOP PRIORITIES OF MINE -- ONE I SHARE WITH SECRETARY MOSBACHER AND ITA UNDER SECRETARY FARREN. THEIR SUPPORT, ALONG WITH THE PERSONAL INVOLVEMENT OF COMMERCE DEPUTY SECRETARY MURRIN AND OTHERS IN SENIOR DEPARTMENT AND ITA MANAGEMENT POSITIONS, REMAIN OF UTMOST IMPORTANCE IF WE ARE TO SUCCEED.

- 12 -

SINCE LAST JUNE, THE US&FCS HAS ATTEMPTED TO BETTER DEFINE ITS ROLE IN THE NATION'S EXPORT DEVELOPMENT EFFORT -- HOW TO DO THE JOB MORE EFFICIENTLY -- HOW TO BETTER MEET THE NEEDS OF U.S. BUSINESS IN THE 1990s. THIS PROCESS CONSTITUTES WHAT WE CALL THE US&FCS "STRATEGIC REVIEW."

I AM CONFIDENT THAT THIS ONGOING PROCESS OF STRATEGIC ANALYSIS, IMPLEMENTATION OF RECOMMENDATIONS, AND DEPLOYMENT OF SCARCE RESOURCES WILL GIVE THE ORGANIZATION THE FOUNDATION IT NEEDS TO ADDRESS SOME OF BUSINESSES' MOST PRESSING EXPORT DEVELOPMENT NEEDS THROUGHOUT THIS DECADE.

WHETHER AMERICAN BUSINESS IS LOOKING TO TAP THE TREMENDOUS COMMERCIAL OPPORTUNITIES IN EASTERN EUROPE OR IN THE WESTERN HEMISPHERE, OR SEEKING TO EXPAND INTO THE MARKETS OF A UNIFIED EC OR A DYNAMIC ASIA, WE EXPECT TO BE THERE WITH THE INFORMATION PRODUCTS AND SERVICES BUSINESS NEEDS TO MAKE THE CASH REGISTERS RING.

GAO and IG Recommendations

EARLY LAST YEAR, THE GAO RECOMMENDED..."THE SECRETARY OF COMMERCE COMMISSION AN INDEPENDENT EXPERT REVIEW OF CIMS'S TECHNICAL STATUS AND THE POTENTIAL TO OVERCOME TECHNICAL PROBLEMS..." CIMS, AS THIS COMMITTEE KNOWS, IS A COMPUTER SYSTEM NETWORK DESIGNED TO ADDRESS THE COMMERCIAL INFORMATION NEEDS OF THE US&FCS FIELD OPERATION.

- 13 -

AS I NOTED IN MY TESTIMONY LAST NOVEMBER, WE FOUND CIMS TO BE A SYSTEM WITH A MULTITUDE OF COMPLEX PROBLEMS. ITS PROBLEMS ARE NOT JUST TECHNICAL. THEY ARE ALSO ORGANIZATIONAL AND STRATEGIC IN NATURE AND CAN BE BEST ADDRESSED BY A MULTI-FACETED APPROACH TO PLANNING. WE ARE NOW WELL INTO THIS PROCESS.

TO ADDRESS THE TECHNICAL ISSUES RELATED TO CIMS WE HAD TO FIRST ADDRESS THE MUCH BROADER ISSUE OF THE STRATEGIC DIRECTION OF THE US&FCS -- TO DEFINE ITS ROLE AND FOCUS ON THE NEEDS OF BUSINESS.

STRATEGIC REVIEW OF US&FCS

SINCE LAST JULY, THE US&FCS HAS UNDERTAKEN THE TASK OF CONDUCTING A LONG-TERM STRATEGIC REVIEW. THE OBJECTIVE OF THE REVIEW IS TO IDENTIFY STRENGTHS AND WEAKNESSES IN THE ORGANIZATION, CONSIDER PRIORITIES, SCRUTINIZE THE QUALITY OF OUR SERVICES, AND MAKE RECOMMENDATIONS TO BEST ADDRESS THEM WITHIN CURRENT RESOURCE PARAMETERS.

WE WANTED TO STEP BACK AND EVALUATE WITHOUT THROWING AWAY THE EXISTING FRAMEWORK, UNDULY DISRUPTING FIELD ACTIVITIES, OR STARTING FROM SCRATCH. WE WANTED TO HAVE BUSINESS TELL US HOW WE COULD BE HELPFUL TO OUR CLIENTS AND POTENTIAL CLIENTS AND TO LEARN HOW TO STEER CLEAR OF AREAS BEST LEFT TO THE PRIVATE SECTOR.

- 14 -

THE INITIAL RESULTS OF OUR STRATEGIC REVIEW SUGGEST SOME BASIC CHANGES IN THE DIRECTION AND EMPHASIS OF THE US&FCS. WE ARE IN THE PROCESS OF INITIATING IMPLEMENTATION OF THOSE RECOMMENDATIONS AND, IN FACT, ALREADY HAVE SEVERAL CHANGES IN PLACE.

THE STRATEGIC REVIEW CONSISTS OF FIVE ACTIVITIES:

- o IDENTIFICATION OF U.S. FIRMS' EXPORT ASSISTANCE NEEDS AND A COMPARISON OF THOSE NEEDS AGAINST CURRENT US&FCS PROGRAMS AND NON-US&FCS ALTERNATIVES.
- o REVIEW OF ALTERNATIVE SOURCES OF INFORMATION AND ANALYSIS TO IDENTIFY THE MOST EFFICIENT MEANS OF OBTAINING AND DELIVERING EXPORT INFORMATION.
- o RESEARCH OF COMMERCIAL ALTERNATIVES, AS WELL AS HOW STATE-OF-THE-ART TECHNOLOGY MIGHT BE USED TO IMPROVE SERVICE DELIVERY AND REDUCE COSTS.
- o IDENTIFICATION OF ORGANIZATION, STAFFING, AND MANAGEMENT ISSUES AND OPTIONS TO BETTER POSITION THE US&FCS TO MEET FIRMS' EXPORT ASSISTANCE NEEDS.
- o EVALUATION OF PAST COOPERATIVE EFFORTS TO DEVELOP OPTIONS TO IMPROVE THE COORDINATION AND IMPACT OF STATE AND PRIVATE SECTOR "MULTIPLIER" CONTRIBUTIONS TO U.S. EXPORT EXPANSION EFFORTS.

- 15 -

THE FIRST THREE OF THESE ACTIVITIES ARE ESSENTIALLY COMPLETE, AND WORK IS PROGRESSING ON THE REMAINING TWO, WHICH ARE PRIMARILY IMPLEMENTATION PHASES OF THE PROJECT.

IN CONNECTION WITH THE STRATEGIC REVIEW, WE HAVE CONSULTED WITH INDIVIDUALS IN THE PRIVATE SECTOR; OUR DISTRICT EXPORT COUNCILS; STATE, LOCAL AND MUNICIPAL GOVERNMENTS; TRADE SPECIALISTS AND DIRECTORS FROM OUR DISTRICT OFFICES; SENIOR COMMERCIAL OFFICERS FROM OUR OVERSEAS POSTS; AND OUR COLLEAGUES IN ITA. WE HAVE ANALYZED RESULTS FROM CLOSE TO 500 QUESTIONNAIRES; SEVERAL FOCUS GROUPS WITH PRIVATE SECTOR FIRMS; AND MEETINGS WITH SOME 250 EXECUTIVES INVOLVED IN EXPORTING.

ALL THIS HAS GIVEN US A CLEARER PICTURE OF EXPORTER NEEDS -- AND WHERE WE NEED TO SHARPEN OUR PROGRAM FOCUS.

Priority Export Assistance Needs

AS I MENTIONED EARLIER, THE FIRST PHASE OF THE STRATEGIC REVIEW WAS DESIGNED TO DEVELOP A LIST OF THE PRIORITY EXPORT ASSISTANCE NEEDS OF BUSINESS. BY LISTENING TO BUSINESS WE LEARNED A GREAT DEAL. TOPPING THE LIST OF NEEDS ARE:

- o ASSISTANCE IN LOCATING AND DEALING WITH AGENTS, DISTRIBUTORS AND END USERS; AND
- o TIMELY, PRODUCT-SPECIFIC MARKET INFORMATION.

- 16 -

THESE NEEDS WERE CLOSELY FOLLOWED BY...

- o EXPORT FINANCING AND RELATED ASSISTANCE;
- o ASSISTANCE WITH AND INFORMATION ON EXPORT LICENSING;
- o ASSISTANCE IN EVALUATING THE SUITABILITY OF AGENTS, DISTRIBUTORS AND END USERS; AND
- o COUNTRY AND PRODUCT-SPECIFIC INFORMATION ON OVERSEAS DISTRIBUTION CHANNELS.

WE ALSO FOUND THE NEEDS OF FIRMS DIFFERED WITH THEIR STAGE OF INTERNATIONALIZATION. THAT IS, THE ASSISTANCE NEEDS OF FIRMS THAT HAVE NOT EXPORTED DIFFER A GREAT DEAL FROM THOSE OF ESTABLISHED EXPORTERS. FOR EXAMPLE, WHILE THE LIST ENUMERATES THE NEEDS OF A WIDE SPECTRUM OF EXPORTS, IT DOES NOT INCLUDE THE U.S. GOVERNMENT'S ROLE AS AN ADVOCATE -- A NEED FUNDAMENTAL TO MAJOR EXPORTERS IF THEY ARE GOING TO MEET THEIR GOVERNMENT-BACKED FOREIGN COMPETITION IN KEY OVERSEAS PROCUREMENTS.

FINALLY, ANOTHER IMPORTANT FINDING WAS THAT EXPORT INTEREST AND CAPABILITY TO EXPORT ARE MORE IMPORTANT FACTORS IN DETERMINING WHETHER A COMPANY EXPORTS THAN ITS SIZE. THIS IS AN IMPORTANT CONTRAST TO THE NOTION THAT SMALL AND MEDIUM COMPANIES ARE INCAPABLE OF EXPORTING.

Strategic Focus

IN THE COURSE OF OUR STUDY, WE DISCOVERED A STRIKING AND WIDESPREAD BELIEF BOTH WITHIN AND OUTSIDE THE US&FCS ORGANIZATION THAT WE ARE NOT NEARLY AS EFFECTIVE AS WE COULD BE. THE US&FCS APPEARED TO HAVE NO CLEAR SENSE OF ITS PRIORITIES -- NO STRATEGIC FOCUS.

- 17 -

WE HAD NEITHER INTERNAL MANAGEMENT PRIORITIES NOR, MORE IMPORTANTLY, PRIORITIES FOR OUR SERVICES AND ASSISTANCE TO U.S. BUSINESS. WE HAD A PROBLEM: US&FCS WAS TRYING TO BE "EVERYTHING TO EVERYBODY." AND, AS A RESULT WAS PROBABLY "LACKING FOR ALL."

THE STRATEGIC REVIEW SUGGESTS WE FOCUS OUR ENERGIES ON SMALL AND MEDIUM FIRMS WITH SOME LIMITED EXPORT EXPERIENCE AND CAPABILITY; A GROUP WE CALL "INFREQUENT" EXPORTERS. THESE ARE THE FIRMS THAT ARE WILLING AND ABLE TO MAKE A COMMITMENT TO BECOME FREQUENT EXPORTERS.

AN INFREQUENT EXPORTER CAN RANGE FROM THE COMPANY WHICH IS ACTIVELY TESTING AN EXPORT MARKET TO A COMPANY WHICH IS ALREADY COMMITTED TO SUSTAINED EXPORT SALES ACTIVITIES IN ONE OR MORE MARKETS AND LOOKING TO EXPAND TO ANOTHER. IN THE JARGON OF EXPORT PROMOTION, THE FORMER ARE CONSIDERED NEW-TO-EXPORT (NTE) FIRMS, AND THE LATTER, NEW-TO-MARKET (NTM) FIRMS.

OVERALL, OUR PRINCIPAL OBJECTIVE SHOULD BE TO HELP THE SMALL AND MEDIUM SIZED INFREQUENT EXPORTER BECOME A MORE-FREQUENT EXPORTER. AT THE SAME TIME, THE US&FCS WILL CONTINUE TO SERVE FREQUENT AND GENERALLY LARGER EXPORTERS, PRIMARILY THROUGH OFFICIAL REPRESENTATION OF BUSINESS INTERESTS THROUGH COMMERCIAL OFFICES OVERSEAS, AS WELL AS IN EMERGING MARKETS WHERE FEW COMMERCIAL ALTERNATIVES EXIST. FIRMS AT INITIAL STAGES OF CONSIDERING THE EXPORT BUSINESS WOULD BE ASSISTED BY US&FCS DOMESTIC OFFICES IN OBTAINING BASIC INFORMATION FROM OTHER EXPORT MULTIPLIER ORGANIZATIONS.

- 18 -

THE EMPHASIS FOR OUR DOMESTIC STAFF SHOULD BE ON SUSTAINED, INDIVIDUALIZED COUNSELING ACTIVITIES BUILT AROUND OUR HIGHLY VALUABLE INTERNATIONAL COMMERCIAL INFORMATION PRODUCTS AND SERVICES -- WHAT THE GAO TERMS "EXPORT FACILITATION." THIS RANGES FROM ASSISTING A COMPANY IN MAKING A SELF ASSESSMENT OF EXPORT CAPABILITY TO FACILITATING THEIR DEVELOPMENT AND IMPLEMENTATION OF AN EXPORT MARKETING PLAN.

OUR NETWORK OF COMMERCIAL OFFICES IN THE 67 LARGEST OVERSEAS MARKETS FOR U.S. EXPORTS NEEDS TO BE READILY ACCESSIBLE TO A BUSINESSMAN IN HIS OWN BACKYARD, BE IT CHARLESTON, WEST VIRGINIA, CHARLESTON, SOUTH CAROLINA, OR ST. LOUIS, MISSOURI.

OVERSEAS, WE SHOULD EMPHASIZE THE DEVELOPMENT OF MARKET INSIGHT INFORMATION -- NOT TRADE STATISTICS, BUT PRODUCT SPECIFIC AND TARGETED MARKET RESEARCH. WE SHOULD CONTINUE TO WORK WITH FIRMS TO IDENTIFY AND DEVELOP RELATIONSHIPS WITH AGENTS, DISTRIBUTORS, AND OTHER OVERSEAS BUSINESS PARTNERS. WE SHOULD DEEMPHASIZE OVERSEAS TRADE EVENTS WHICH DRAW FROM THE SAME AUDIENCE OF ESTABLISHED EXPORTERS, AND FOCUS ON MANAGING AND INITIATING MORE ACTIVITIES FOR "INFREQUENT" EXPORTERS, SUCH AS "MATCHMAKER DELEGATIONS" AND EVENTS SHOWCASING PROMISING NEW-TO-EXPORT AND NEW-TO-MARKET FIRMS.

IN ADDITION, WE SEE GOVERNMENT-TO-GOVERNMENT REPRESENTATION AS ONE OF THE MOST EFFECTIVE WAYS OUR OVERSEAS STAFF CAN ASSIST U.S. BUSINESS. THIS ADVOCACY ROLE IS ONE THAT HAS BEEN EMBRACED BY SECRETARY MOSBACHER AND HAS FOUND ENTHUSIASTIC SUPPORTERS IN PRESIDENT BUSH, VICE PRESIDENT QUAYLE, AND SECRETARY OF STATE BAKER. OUR COMMERCIAL OFFICERS, AS WELL AS THEIR AMBASSADORS, ARE AT THE FOREFRONT OF THOSE BACKING AMERICAN BUSINESS TO ENSURE THEY GET A FAIR SHOT AT CONTRACTS ABROAD.

AT US&FCS HEADQUARTERS, THE STRATEGIC REVIEW POINTS OUT THE NEED FOR US TO TAKE A STRONG ROLE IN QUALITY CONTROL AND FIELD SUPPORT. THIS SHOULD INVOLVE ESTABLISHING MINIMUM PROGRAM STANDARDS, PRODUCT MANAGERS FOR ESSENTIAL SERVICES, AND IMPROVING COMMUNICATIONS WITH THE FIELD.

Export Counseling

FOCUSED, ON-GOING, ONE-ON-ONE COUNSELING, BOTH DOMESTIC AND OVERSEAS, IS VIEWED AS THE MOST USEFUL US&FCS SERVICE BY THE BUSINESS COMMUNITY, MULTIPLIERS, AND US&FCS STAFF.

RESULTS FROM THE STRATEGIC REVIEW SUGGEST WAYS WE CAN STRENGTHEN OUR CURRENT COUNSELING EFFORTS. THESE INCLUDE ASSISTANCE TO COMPANIES IN THEIR DEVELOPMENT OF AN EXPORT MARKETING PLAN, EQUIPPING DOMESTIC STAFF WITH THE TRAINING, INFORMATION AND MATERIALS, AND USING A TEAM APPROACH WITH CONTRIBUTIONS OF BOTH DOMESTIC AND OVERSEAS OFFICES IN SUPPORT OF A CLIENT.

- 20 -

TO INSTITUTIONALIZE SUCH TEAM-ORIENTED COUNSELING, WE NEED TO EMPHASIZE THE DELIVERY OF THE MARKET INSIGHT INFORMATION CRUCIAL TO ESTABLISHING AN ONGOING EXPORTING CAPABILITY. THEY INCLUDE:

- o ACCURATE, TIMELY, SPECIFIC INFORMATION ON PRODUCTS AND MARKETS;
- o BETTER TOOLS TO IDENTIFY AND OBTAIN INFORMATION; AND
- o EXPANDED TRAINING, PARTICULARLY IN THE AREAS OF TRADE INFORMATION AND EXPORT FINANCE.

Alternative Sources of Export Assistance

WITH REGARD TO MULTIPLIERS, THE STRATEGIC REVIEW FOUND THAT THE US&FCS SHOULD BUILD ON THE GROWING STATE AND PRIVATE SECTOR EXPORT ASSISTANCE CAPABILITIES AND MAKE MORE AGGRESSIVE USE OF LOCAL DISTRICT EXPORT COUNCILS (DEC) AND OTHERS, SUCH AS THE SMALL BUSINESS ADMINISTRATION (SBA) NETWORK TO COMPLEMENT DISTRICT OFFICE EFFORTS. THIS IS ESPECIALLY TRUE IN THE AREAS OF EXPORT AWARENESS BUILDING, GENERAL COUNSELING, AND SEMINARS.

OUR EXPORT DEVELOPMENT PARTNERS, STATE AND LOCAL GOVERNMENTS, AND PRIVATE SECTOR ORGANIZATIONS ARE CONVINCED, HOWEVER, THAT THE US&FCS CANNOT ENTIRELY ABANDON ITS SUPPORT OF THESE EFFORTS. MULTIPLIERS SHOULD BE A SUPPLEMENT TO, NOT A REPLACEMENT FOR, US&FCS SERVICES, PARTICULARLY SINCE MULTIPLIER PROGRAMS AND SUPPORT ARE NOT CONSISTENT FROM STATE TO STATE. THIS IS A FINDING IN WHICH THE GAO AND THE COMMERCE'S INSPECTOR GENERAL CONCUR.

- 21 -

WITH REGARD TO OUR RELATIONSHIP WITH STATE GOVERNMENTS, THE STRATEGIC REVIEW ALSO CONFIRMED THAT WE HAVE A SPECIAL OPPORTUNITY TO WORK WITH STATES IN THE ROLE OF A PARTNER, AS DISTINCT FROM A CLIENT. US&FCS WILL BE DEVELOPING LOCAL STRATEGIES TO ENSURE APPROPRIATE COOPERATION AND COORDINATION WITH BOTH DOMESTIC AND OVERSEAS UNITS.

ULTIMATELY, OUR OBJECTIVE IS TO DEVELOP STABLE, LOCAL SOURCES FOR GENERAL EXPORT ASSISTANCE TO COMPLEMENT US&FCS PROGRAMS. WHILE WORKING TOWARD THIS OBJECTIVE, WE RECOGNIZE OUR FIRST PRIORITY MUST BE TO PROVIDE FIRMS WITH A SMOOTH TRANSITION AS THEY GRADUATE FROM ONE SERVICE PROVIDER TO ANOTHER.

AS REGARDS THE PRIVATE SECTOR, WE BELIEVE WE CAN DO MORE TO BUILD ON A GROWING EXPORT-ASSISTANCE CAPABILITY. FOR EXAMPLE, WE WOULD LIKE TO DEVELOP LOCAL EXPORT-ASSISTANCE REFERRAL NETWORKS BASED ON JOINT VENTURES WITH NATIONAL MULTIPLIER ORGANIZATIONS, SUCH AS:

- o FREIGHT FORWARDERS, BANKING, LEGAL AND ACCOUNTING ASSOCIATIONS; AND
- o LOCAL CHAMBERS OF COMMERCE; AS WELL AS
- o STATE AND LOCAL GOVERNMENTS.

Program Specificity

A CLEAR MESSAGE SURFACING FROM OUR RESEARCH DETERMINED THAT OUR CLIENTS PUT A PREMIUM ON SPECIFICITY AND INFORMATION WHICH IS EASILY ASSIMILATED INTO THEIR MARKETING STRATEGIES. WHILE SOME EXPECTATIONS FOR SPECIFICITY -- IDENTIFYING SALES LEADS FOR A SINGLE CLIENT -- CANNOT BE REALISTICALLY MET, THERE ARE AREAS FOR IMPROVEMENT. FIRMS VALUE TIMELY, PRECISE AND RELEVANT INFORMATION. GENERAL INFORMATION MAY BE USEFUL, BUT IT IS NOT HIGHLY VALUED.

THE MOST EFFECTIVE US&FCS PRODUCTS AND SERVICES ALREADY HAVE PRODUCT-SPECIFIC CHARACTERISTICS, BUT CAN AND WILL BE IMPROVED. A FEW EXAMPLES NOTED EARLIER INCLUDE, OUR AGENT/DISTRIBUTOR SERVICE, THE COMPARISON SHOPPING SERVICE, AND THE WORLD TRADERS DATA REPORT.

SHORTLY, WE WILL BE REVIEWING THE ENTIRE RANGE OF US&FCS EXPORT INFORMATION AND CONTACT SERVICES TO SEE HOW THEY CAN BE MADE MORE SPECIFIC AND TO IMPROVE THEIR OVERALL USEFULNESS TO BUSINESS.

Program and Product Quality Control

THE STRATEGIC REVIEW ALSO FOUND THE US&FCS NEEDS TO EMPHASIZE QUALITY CONTROL -- TO BECOME MORE OF A CLIENT/SERVICE-ORIENTED ORGANIZATION.

- 23 -

TO THIS END, WE EXPECT TO INSTITUTIONALIZE PROGRAM EVALUATIONS, PERIODIC SURVEYS, AND RANDOM SPOT CHECKS TO ASSESS QUALITY AND CUSTOMER SATISFACTION WITH OUR SERVICES. WE ALSO HOPE TO PUT "PRODUCT MANAGERS" IN PLACE TO MAKE SURE OUR SERVICES MEET THE HIGH-PERFORMANCE LEVELS BUSINESS EXPECTS OF US.

Program Changes

FROM THE STRATEGIC REVIEW WE CAN ALSO DERIVE SOME SPECIFIC RECOMMENDATIONS TO IMPROVE US&FCS PROGRAMS AND SERVICES, PARTICULARLY FOR SOME OF OUR BETTER PROGRAMS:

- o THE MATCHMAKER PROGRAM IS ALMOST UNIVERSALLY VIEWED AS AN EFFECTIVE, USEFUL PROMOTIONAL VEHICLE. IT HAS A PROVEN TRACK RECORD OF PRODUCING RESULTS FOR NEW-TO-EXPORT AND NEW-TO-MARKET FIRMS. WE WANT TO INCREASE THE NUMBER OF MATCHMAKERS FROM LAST YEAR'S 10, REDUCE COSTS, AND EXPAND THE VARIETY OF SECTORS AND COUNTRIES COVERED.

- o WITH THE TRADE OPPORTUNITIES PROGRAM (TOP), THE US&FCS IS A MAJOR SUPPLIER OF OVERSEAS SALES LEADS TO U.S. BUSINESS THROUGH STATE AND PRIVATE SECTOR MULTIPLIERS. HOWEVER, US&FCS'S CURRENT TOP PROGRAM APPARENTLY FAILS TO DELIVER CONSISTENTLY HIGH QUALITY, USEFUL SALES LEADS. WE PLAN TO STRENGTHEN THE PROGRAM BY EMPHASIZING QUALITY OVER QUANTITY OF LEADS AND COLLECTING ONLY THOSE LEADS WHICH MEET DEFINED PARAMETERS FOR SPECIFICITY, TIMELINESS, AND INTENT TO PURCHASE.

- 24 -

NEXT WEEK, A TEAM CONSISTING OF DOMESTIC TRADE SPECIALISTS AND FOREIGN SERVICE NATIONALS WILL PARTICIPATE IN A TWO-DAY WORKSHOP TO DEVELOP SPECIFIC MODIFICATIONS TO THE TOP PROGRAM.

- o AS FOR MARKET RESEARCH, WE PLAN TO MAKE INDUSTRY SECTOR ANALYSES (ISAs) MORE PRODUCT SPECIFIC AND DEVELOP NEW "BEST MARKET" RESEARCH TO HELP COMPANIES EASILY IDENTIFY THE MOST PROMISING WORLD MARKETS FOR THEIR PRODUCTS.

IMPLICATIONS FOR COMMERCIAL INFORMATION MANAGEMENT SYSTEM (CIMS)

AND NOW, I WOULD LIKE TO TURN TO WHAT THIS MEANS FOR CIMS. WITH THE STRATEGIC REVIEW AND AN INDEPENDENT TECHNICAL REVIEW OF CIMS NEARLY COMPLETE, WE ARE IN A BETTER POSITION TO IDENTIFY THE FUTURE REQUIREMENTS OF OUR AUTOMATED SYSTEMS AND PROCEED TO ACCOMPLISH THEM.

THE INDEPENDENT TECHNICAL REVIEW, CONDUCTED BY PRICE WATERHOUSE, CONFIRMED THE EXISTENCE OF SOME BASIC AND MAJOR PROBLEMS WITH CIMS:

- o UNCLEAR DIFFERENTIATION BETWEEN CIMS AND OFFICE AUTOMATION
- o MULTIPLE HARDWARE AND SOFTWARE PLATFORMS
- o COMPLEX USER INTERFACE AND SLOW RESPONSE TIMES
- o OBSOLETE EQUIPMENT AND UNRELIABLE DATA TRANSMISSION
- o INCOMPLETE DATA, AND
- o DEPENDENCE ON THE STATE DEPARTMENT TELECOMMUNICATIONS NETWORK

- 25 -

WHAT WE FOUND FROM THE STRATEGIC REVIEW IS THAT "REAL TIME" ACCESS TO ALL US&FCS DATA IS NOT NECESSARY. WE FOUND THAT LOCAL MANAGEMENT OF CLIENT DATA IS MORE IMPORTANT.

WE NOW REALIZE WE MUST SEPARATE OUR OFFICE AUTOMATION NEEDS FROM THOSE OF TRADE DATA AND INFORMATION. THE HISTORICAL COST ESTIMATES ASSOCIATED WITH "CIMS" HAD COMBINED THE TWO. FURTHER DEVELOPMENT AND OPERATIONAL ACTIONS MUST SEPARATE THESE FUNCTIONS TO ENSURE SUCCESSFUL IMPLEMENTATION.

IN THIS REGARD, WE PLAN TO UPGRADE OUR SERIOUSLY-DEFICIENT AUTOMATIC DATA PROCESSING (ADP) ENVIRONMENT BY INSTALLING A PERSONAL COMPUTER-BASED OFFICE AUTOMATION ENVIRONMENT FOR THE DOMESTIC AND OVERSEAS FIELD STAFF. THIS MAY INCLUDE ELECTRONIC MAIL CAPABILITIES AND OTHER IMPROVEMENTS IF THEY PROVE COST EFFECTIVE.

WE HAVE LOOKED AT SEVERAL OPTIONS FOR MAKING CIMS MORE TIMELY, USEFUL, AND EFFICIENT. TO DEVELOP AND EVALUATE CIMS CONFIGURATION ALTERNATIVES, WE HAVE ENGAGED THE ASSISTANCE OF EXPERT INDEPENDENT CONTRACTORS. WE ARE PROCEEDING EXPEDITIOUSLY TO COMPLETE THE FORMAL PLANNING DOCUMENTS NECESSARY TO IMPROVE CIMS.

The CIMS "Solution"

OF THE VARIOUS OPTIONS EXPLORED, THE MOST PROMISING INVOLVES ADOPTING CD-ROM TECHNOLOGY AT ALL DOMESTIC AND FOREIGN SITES AND ACCESSING CIMS INFORMATION THROUGH THE NATIONAL TRADE DATA BANK (NTDB). A SECOND OPTION, INVOLVING DIAL-UP TELECOMMUNICATION CAPABILITIES TO ACCESS TRADE INFORMATION FROM A COMMERCIAL SERVICE, MAY PROVE A USEFUL SUPPLEMENT.

TO ADDRESS THE NEEDS OF BOTH OFFICE AUTOMATION AND CIMS, WE WOULD EXPECT TO CONVERT FROM MINICOMPUTERS TO IBM-COMPATIBLE, VENDOR-INDEPENDENT PCs AT ALL SITES. MODEMS AND LASER PRINTERS WOULD BE INSTALLED WITH LOCAL AREA NETWORKS (LANs) AS APPROPRIATE. WE WOULD ALSO INVESTIGATE THE COST-BENEFIT OF WORLDWIDE ELECTRONIC MAIL.

THE CIMS CONFIGURATION WOULD BE BASED ON CD-ROM READERS AT ALL DOMESTIC AND INTERNATIONAL SITES -- APPROXIMATELY 200. WE WOULD BUY AN "AT COST" SUBSCRIPTION FOR NTDB CDs FOR ALL SITES AND PROVIDE A COMPLETE AMERICAN TRADER CLIENT LIST TO OVERSEAS POSTS AS APPROPRIATE. A LOCAL PC-BASED CLIENT TRACKING SYSTEM WOULD BE PROTOTYPED AND DEPLOYED. DATA TRANSFER VIA EXISTING MEANS -- STATE DEPARTMENT TELECOMMUNICATIONS AND DISKETTES -- WOULD BE CONTINUED, BUT ON A REDUCED BASIS. WE WOULD INVESTIGATE EXPANDED USE OF OTHER EXISTING COMMERCIAL NETWORKS OVERSEAS UNTIL A NEW STATE DEPARTMENT NETWORK IS IMPLEMENTED.

- 27 -

OTHER ENHANCEMENTS MIGHT PROVIDE FOR SELECTIVE ACCESS TO NTDB-AUTHORIZED COMMERCIAL TRADE ON-LINE INFORMATION DISTRIBUTION SERVICES. AND, WE WOULD CONSIDER PRODUCING ENHANCED US&FCS CD-ROM AND COMMERCIAL CD-ROM DATABASES.

Anticipated Benefits

THESE ACTIONS OFFER SOME CLEAR BENEFITS OVER THE EXISTING SITUATION IN THAT THEY WOULD:

- o TAKE ADVANTAGE OF ESTABLISHED PROCESSES AND SYSTEMS, SUCH AS THE CONGRESSIONALLY MANDATED NTDB
- o SIGNIFICANTLY IMPROVE TIMELINESS AND USEFULNESS
- o IMPROVE SEARCH AND RETRIEVAL CAPABILITY
- o PROVIDE MORE FLEXIBILITY, PORTABILITY, AND EXPANDABILITY
- o PROVIDE FOR DISTINCT CIMS AND OFFICE AUTOMATION PLANNING AND MANAGEMENT
- o PROVIDE FOR THE USE OF CD-ROM TECHNOLOGIES, AN INCREASINGLY POPULAR MEDIUM FOR INFORMATION DISTRIBUTION
- o MINIMIZE RELIANCE ON INTERNATIONAL TELECOMMUNICATIONS
- o REDUCE DEMAND FOR AND RELIANCE ON THE STATE DEPARTMENT TELECOMMUNICATIONS SYSTEM
- o ALLOW STATE DEPARTMENT/NON-US&FCS COMMERCIAL POSTS TO BE EASILY BROUGHT INTO THE CIMS NETWORK, AND
- o MINIMIZE ROLE OF IN-HOUSE SUPPORT IN SOFTWARE DEVELOPMENT AND MAINTENANCE

SINCE TECHNICAL AND RESOURCE CONSTRAINTS ARE LIKELY TO MAKE REVAMPING CIMS A MULTI-YEAR UNDERTAKING, THERE ARE SOME IMMEDIATE CHANGES WHICH WILL BE MADE TO THE CURRENT CIMS IN AN EFFORT TO MAKE IT MORE USEFUL. THESE CHANGES, TO BE RELEASED THIS SUMMER, ARE BASED ON A NEW SYSTEMATIC REVIEW AND TESTING PROCEDURE WHICH SHOULD IMPROVE THE OVERALL RESPONSE TIME, CORRECT MINOR TECHNICAL PROBLEMS, AND IMPROVE OPERATING EFFICIENCIES.

TO ENSURE THAT OUR INFORMATION SYSTEM AND OUR CONTRIBUTIONS TO THE NATIONAL TRADE DATA BANK ARE OF THE HIGHEST QUALITY, WE HAVE PROVIDED MORE THAN \$700,000 TO INVEST IN UPGRADING OUR MARKET RESEARCH DATABASE; \$400,000 OF WHICH WAS MADE AVAILABLE BY SECRETARY MOSBACHER TO FOCUS ON THE JAPANESE MARKET. THE ADDITIONAL FUNDS ARE BEING CONCENTRATED ON EASTERN EUROPE, PANAMA, AND OTHER DEFICIENT AREAS OF THE DATABASE, AS WELL AS ON DATABASE CLEANUP EFFORTS AT SEVERAL OTHER HIGH-PRIORITY AND HIGH-NEED POSTS.

I SHOULD NOTE THAT ANY NEW RESEARCH WILL BE TARGETED AND SPECIFIC, CONSISTENT WITH STRATEGIC REVIEW RESULTS. ACCORDINGLY, WE ARE ELIMINATING BROAD BRUSH, GENERAL RESEARCH PRODUCTS SUCH AS THE INTERNATIONAL MARKET RESEARCH (IMR) REPORTS.

WE PLAN TO HAVE A PROTOTYPE OF THE CIMS FIELD-TRACKING SYSTEM READY BY THE END OF THIS YEAR. PENDING COMPLETION OF ONGOING REQUIREMENTS AND COST-BENEFIT ANALYSES, WE EXPECT TO BEGIN INSTALLING PCs, CD-ROM READERS AND NTDB SUBSCRIPTIONS AT SELECTED CITIES IN THE COMING YEAR.

- 29 -

DEVELOPING A PROTOTYPE WILL GIVE US THE OPPORTUNITY TO TEST THE SYSTEM, FINE TUNE IT, AND MAKE ANY NECESSARY MID-COURSE CORRECTIONS BEFORE FINALIZING PLANS TO INSTALL THE SYSTEM BEGINNING IN FISCAL YEAR 1992.

SHOULD THE SUBCOMMITTEE BE INTERESTED, I WOULD BE PLEASED TO GO INTO THE SPECIFICS OF ANY OF THESE INITIATIVES.

CONCLUSION

I HOPE I HAVE BEEN ABLE TO GIVE THE SUBCOMMITTEE AN IDEA OF WHAT WE HAVE BEEN DOING TO STRENGTHEN THE US&FCS TO BETTER RESPOND TO AMERICAN BUSINESS AS THEY PREPARE TO FACE THE CHALLENGES OF THE COMING DECADE. WE BELIEVE BY FOCUSING STRATEGICALLY ON OUR MANDATE AND BY "GETTING OUR HOUSE IN ORDER" WE WILL BE MORE EQUIPPED TO DO JUST THAT. WE FEEL CONFIDENT WE ARE STRENGTHENING THE ORGANIZATION IN WAYS WHICH WILL BE MOST BENEFICIAL TO U.S. EXPORT INTERESTS.

I WOULD ALSO LIKE TO TAKE THIS OPPORTUNITY TO THANK SECRETARY MOSBACHER AND UNDER SECRETARY FARREN FOR GIVING US THEIR SUPPORT AND THE GREEN LIGHT TO UNDERTAKE THIS ENORMOUS, AND OFTEN SEEMINGLY HERCULEAN TASK.

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, I WOULD BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

Senator ROCKEFELLER. We are hoping and have reason to believe that is going to bear fruit in jobs for our people. It pays to fight. In other words, people just do not come and say can I put a plant in your state. You have just got to be over there and you have to compete and fight with Missouri and everybody else.

We are starting to fight now, and I think we are starting to get some results.

Ms. SCHWAB. I think that we cannot afford to leave ourselves in the position vis-a-vis Japan where they can say you are not trying hard enough.

Senator ROCKEFELLER. But on the other hand, your agency is going to spend \$100 million this year to promote exports in various ways.

Ms. SCHWAB. It's \$85 million.

Senator ROCKEFELLER. That's \$85 million to promote exports in various ways.

What good does that do, Secretary Schwab, if you cannot get your products into Japan if you do not have open markets in Europe? How do you deal with that?

Ms. SCHWAB. I think with respect to trade—let me just note the President's statement yesterday. He noted in a Rose Garden ceremony that the two key components of his trade strategy were trade policy and trade promotion and the need for a combined effort. Over the last year, the administration has been exceedingly active, as you know, with respect to Super 301 and the related structural impediments initiatives, SII negotiations, MOSS talks, construction talks and so on.

In, for example, a case like construction—and that is a very good case study. That is a situation that started out as an export promotion issue, 1984-1985, where the Commercial Service officer in Osaka noted that the Kansai Airport project was going to be built and noted that U.S. companies were not getting a shot at bidding on the Kansai Airport project. He then proceeded to push this issue. He discovered the barrier. Frequently our officers are the first ones to discover trade barriers. Since then, we have had multiple negotiations and discussions and reached some agreements vis-a-vis access to the Japanese construction market.

Within the last six to eight months, we are finally beginning to see American companies make money. In the trade promotion business, I have discovered that the only criterion is: Is American business making money? It's our measuring stick, and it is what Secretary Mosbacher focuses on, the issue of the cash register ringing.

Now, with respect to Japan and Europe, we have to position ourselves to put American companies in the best possible position to do business. If there are barriers, we find them. You have to work them through the trade policy process if you cannot work them out on the spot. If there is a market opening agreement, it is incumbent upon us to work with companies to make sure they get the business. That is the only way you are going to find out whether the agreement is worth anything.

We have, for example, started up a new export promotion process in Japan. We will take them up on the offer. We are increasing resources in Japan, increasing our market research, and then we will see. We will see how Japan's import promotion scheme is oper-

ating, and we will see how successful the agreements are. While we are moderately optimistic, no one will ever accuse us of not having tried.

Senator ROCKEFELLER. I understand that, Secretary Schwab, and I understand the importance of doing that. You just have the feeling that it is not enough, that as a private sector, that the instinct is not sufficiently there, particularly in the smaller size business, because in spite of your efforts, you cannot get your people to convince them to do that. The government is doing this, the government is doing that.

But the basic fact of the matter is we went through the 1980s when the government really was not doing anything to force market opening either in Japan or in Europe. And now, when so much of the manufacturing base has been shifted, the government, because of the Congress, because of people like Jack Danforth and others who have fought for a tough trade policy, there is this hope that they will open up.

The Japanese know how to work us. They go to the structural impediment talks, and they tell us what we are not doing, and we tell them what they are not doing. And that's fine. And they make promises and they go back. And we relax. Then we do not put them on the list. And you come back 12 months later and the situation is the same. We still have a \$50 billion trade deficit with Japan. That is not necessarily either your fault or your field.

But it is frustrating to me. It is frustrating when I think of a state like West Virginia that has so many problems economically, what we could be doing in exporting. We have to promote, but we also have to open up markets, and we just cannot compromise on that subject.

Ms. SCHWAB. I have to agree with you entirely. I would say you, Senator Danforth, and others who were involved in the 1988 act can take pride in the fact that you have made a great deal of difference. The administration has been exceedingly active and exceedingly forthcoming in pursuing the mandate in the spirit of the 1988 act.

I can assure you from our perspective—and as I said, we are on the operations side—at any point that you would like to have us back to report on who is making money and who is not making money in the Japanese market, I would be more than happy to be here. After all, that is the measure that we are looking at. And that is the measure we have made clear to the Japanese and is the one that counts. It is incumbent upon us to make sure the Japanese cannot accuse us of not having gotten American companies out there to try.

In West Virginia, for example, US&FCS has a very active program. I noted your comment to Fred Bergsten about West Virginian exports and the fact that it was not all coal. We, in fact, in our office have tracked a great many of our West Virginian clients and have success stories in the area of hydraulic valves from Princeton, and transmission oil coolers from Wheeling, and safety glass from South Charleston, and optical siting devices in Wardensville. These are all success stories, not in coal but in addition to coal, that have come out of successful West Virginia endeavors at exporting. And,

I might add, three of those four companies were making export sales for the first time.

Senator ROCKEFELLER. Senator Danforth.

Senator DANFORTH. Mr. Chairman, I do want to ask a few questions of the witness, but first I would like to say just a word about you and your role. I want to compliment you for holding this hearing. You, of course, as you have made it clear during the hearing, are very focused on the West Virginia situation and on the opportunities for exports that could develop for West Virginia.

But more broadly than that, in the two committees that you serve on, the Finance Committee and the Commerce Committee, you really could not be better positioned than you are to deal with the problems of trade and, through this committee, with the problem of export promotion. So, I want to compliment you on holding the hearing.

In addition to that, you have, of course, your personal experience in Japan. You lived there for—what—two years. I know you speak Japanese. I have been to Japan with you and have been amazed at your ability to communicate. So, you really offer something in this area.

I want to ask you, Sue, just a few short questions. Do you agree with Fred Bergsten that Super 301 should be extended? [Pause.]

That requires an administration position that has not gone through the process.

Ms. SCHWAB. You would not believe the process, Senator.

Senator DANFORTH. You are not prepared to argue against the proposal at this time. Is that right?

Ms. SCHWAB. Oh, the better part of valor is that I not say anything at all beyond noting that the administration has shown itself fully willing and capable of being active and aggressive even outside of Super 301. The structural impediments initiative was, in fact, as a technical matter, outside of Super 301. So, the authorities—

Senator DANFORTH. Brought about by Super 301. Brought about by Super 301 and announced the same day that the priority countries were announced in 1989.

Well, do you think Super 301 worked?

Ms. SCHWAB. In this phase of implementation, yes. We will see how the results look.

Senator DANFORTH. Good point. In other words, as a statutory mechanism it is a useful one. It did bring about some results on paper. The question now is do those paper results translate into actual sales. Right?

Ms. SCHWAB. It has been aggressively implemented, and Fred Bergsten noted how significant the structural impediments initiative agreement is. That is only an interim agreement. Obviously, the final agreement will be within the next month or so. And, we will see.

Senator DANFORTH. Right. No matter what is announced when the final results come out, we have to wait and see. Correct?

Ms. SCHWAB. Yes.

Senator DANFORTH. The measure is going to be actual sales.

Ms. SCHWAB. Absolutely. And in the President's announcement on the interim report that was duly noted.

Senator DANFORTH. And it is not possible to claim results until we see results. Right?

Ms. SCHWAB. Absolutely. It is much more convincing when you see results.

Senator DANFORTH. And to date, as far as you are concerned—and you are on the front line trying to sell American goods and services abroad—it is premature. You have not yet seen them.

Ms. SCHWAB. We are beginning to see evidence. It is hard to know, Senator Danforth, how much is directly related to the most recent initiatives and agreements and how much is related to agreements the year before and so on. I had mentioned the construction case. I would also mention furniture as an example. We are just beginning to pick up in our area some evidence of sales being made and markets being penetrated for the first time. Are these anomalies? We do not know that yet.

Senator DANFORTH. I just have one other point. You have already alluded to it. I am concerned that in Europe, in Eastern Europe now, we have blown it. I am concerned that a wonderful opportunity opened up and we have been so sluggish that the rest of the world has passed us by. I am told that in the eastern European countries, the Japanese, the Koreans are there, and of course, the western European countries are there.

And I would hope that in your own job, but more generally throughout the Commerce Department and throughout the administration, there could be some note of urgency that would be put across to those who are responsible. I think it would be a sad state of affairs if the world is coming our way and we are not able to take advantage of it, and if the markets are lost to those who are more agile and more fleet of foot than we are. So, I would hope that something of a sense of urgency could be expressed by us in Congress through you to the relevant people in the administration.

Ms. SCHWAB. I think there is a very strong sense of urgency in the administration about Eastern Europe. I know for a fact that sense of urgency is very much present at the Department of Commerce. In the last six months we have opened the Eastern European Business Information Center that fields thousands and thousands of inquiries. Offices, for example in Poland and in Hungary, that used to get five or 10 American businessmen coming through a month are now getting 50 and 60 a week.

The Secretary of Commerce has been to Eastern Europe two or three times in the last eight months. Under Secretary Farren is on his way to Poland to open up the EEBIC office there. We have a major medical equipment program going on in the Soviet Union this week.

We have been stepping up our activities. At this point there cannot be too much. I agree with you on that. But we are getting revved up, as I noted earlier, the U.S. and Foreign Commercial Service is opening in Czechoslovakia and East Germany where we have not been before. But, yes, absolutely, a point well taken.

Senator DANFORTH. Thank you, General Schwab.

And thank you again, Mr. Chairman, for holding the hearing and for your very good leadership in this area.

Senator ROCKEFELLER. Thank you, Senator Danforth, very much.

Ms. SCHWAB. Thank you, Senator Danforth.

Senator ROCKEFELLER. Secretary Schwab, that is a vote I think. So, let me just conclude on one question with you.

We know for sure that not just in the case of Japan, but virtually every European country, every other industrial country in the world, will do anything to help their businesses export. They subsidize, they underwrite, they make up the loss. Steel is a classic case.

In West Virginia we have people that need jobs. Our government does not subsidize, our government does not underwrite, our government does not make up for losses. The strongest thing we do is voluntary quotas. I cannot be satisfied with a government policy in terms of my state, West Virginia, as well as the rest of the Nation, where we say that we are going to do better, that we are going to try and entice people to export more, but the fundamental difference is all the other countries underwrite their businesses, they own their businesses, they promote the expansion of their businesses, they protect their businesses while they are getting going.

What can we do as a government, as a Congress, do to be more aggressive in the way we promote exports over and above what you are already doing?

Ms. SCHWAB. We have, as I noted, started moving forward quite dramatically. It would be wonderful to see Congress working with the administration to enhance these efforts. The President's announcement yesterday of the TPCC, the first interagency committee designed for the sole purpose of unifying and streamlining and making more comprehensive the trade promotion infrastructure supplied by or created by the Federal Government—is most significant.

The President has, in spite of our tight budget times, proposed, for example, a \$10 million increase in the US&FCS budget for the fiscal year 1991. I would note, as often as not in past years, the administration's request for our budget has been more generous than ultimately Congress was prepared to go along with. That is an area where obviously I feel very strongly. I think we can make some progress. You would be amazed at what we can do with some incremental increases.

Finally, the findings of our strategic review have given us a clearer picture of what the kind of businesses about which you mentioned, the small and medium size companies in West Virginia and what they need. With this information we can better focus our efforts, attention and activities to get them out there in the export market. Ultimately, it is incumbent upon the companies themselves. Government can go just so far. We can create the infrastructure. We can offer market research. We can offer contact services. We can set them up with would-be sellers of their products overseas. Ultimately through, a company has to want to export and has to have a competitive product or service.

Senator ROCKEFELLER. Well, I think you are doing a terrific job, and I know that Roger Fortner, who you and I have talked about before, who is in West Virginia representing your US&FCS, does an excellent job. I was very pleased when you, in fact, mentioned three West Virginia businesses that were not exporting before that are exporting now. I think that you are precisely the right person in the right job, and I am very grateful.

Essentially you say the truth. We just do not have a system wherein government has the proper role, and that the private sector has to buy into the concept of exports over the years, 1950s, 1960s, 1970s, most of the 1970s, that we grew complacent. Nobody was competing against us, and all of a sudden, Japan, Taiwan, Korea, Europe just started catching up on us.

And I think our private sector has been slow to react. The next panel is made up of representatives from private sector, two companies, DuPont and GE Plastics, that have been very aggressive, and also the U.S. Chamber of Commerce. I will be calling a five minute recess now to go vote, and then we will come back and talk about private sector initiatives.

But I appreciate very much, Secretary Schwab, your own expertise and your own aggressive approach to your work.

Ms. SCHWAB. Thank you very much, Mr. Chairman. I commend you for holding this hearing.

Senator ROCKEFELLER. Thank you.

We will stand in recess for five minutes. [Recess.]

Senator ROCKEFELLER. I will start with Glen Hiner and, Glen, I understand that you have a plane to catch, and so we will lead with you first.

I am delighted that you are here, Glen. Your company in Parkersburg I think won the E award for excellence.

Mr. HINER. That's correct.

Senator ROCKEFELLER. That is good.

Also, Nancie Johnson, Manager of International Trade and Investment for DuPont, and Chemical Manufacturers Association. Are you representing them or DuPont?

Ms. JOHNSON. CMA today.

Senator ROCKEFELLER. Okay, CMA.

And Mark Van Fleet, representing the U.S. Chamber of Commerce. You are Director of Export Promotion.

Mr. VAN FLEET. Yes, sir.

Senator ROCKEFELLER. Glen, I welcome your testimony, and I thank you. I think you just got back literally from Japan, did you not?

Mr. HINER. I just arrived this weekend after a two week visit in Southeast Asia and Japan. Yes, I did.

Senator ROCKEFELLER. Good.

Mr. HINER. And your office contacted me while I was there.

Senator ROCKEFELLER. I look forward to your testimony.

STATEMENT OF GLEN H. HINER, SENIOR VICE PRESIDENT, GENERAL ELECTRIC PLASTICS, PITTSFIELD, MA

Mr. HINER. Mr. Chairman, thank you for the opportunity. I am delighted to be here.

GE Plastics is the largest growing manufacturing segment of the General Electric Company and has grown from a small business in the 1960s to a \$5 billion part of our corporate enterprise in the current period. And we have done that through a phrase that we call a technology based marketing driven business. And both our United States business and our export business have grown in parallel with our total growth. And, in fact, the plants that we have in

New York, West Virginia, Indiana, Illinois, Alabama, California have all grown faster in their exports than have their internal business.

I would like to say that I think that the key to real export opportunities is technology, having a technology that others need or that puts you in a knowingly first-place position in the world, having leadership, having the opportunity to take that technology to provide an incentive that others will want to purchase, want to procure, want to use the products that are based on your technology.

I would say that anything that the government can do to enhance technology development, the funding of research, any incentive that would come out of the Federal Government to support research would be in turn an incentive to the exportation of goods from this country.

I would also say that as we negotiate trade agreements around the world, that the protection of our intellectual property, the protection of our patents, the protection of our know-how could be foremost and should be a strong lever as we negotiate those trade agreements.

And I would say that while you mention this recognition that our company received from Governor Caperton and the State of West Virginia as being an incentive, it really is because the people of Parkersburg and the people of Morgantown, who represent our plants in the State of West Virginia, take great pride in that award and the recognition of being a contributor to the positive balance of trade that our industry has in the United States commerce.

Senator ROCKEFELLER. How soon do you have to go?

Mr. HINER. I have time for you, Senator.

Senator ROCKEFELLER. No, but do you have 5 or 10 minutes?

Mr. HINER. I have 10 good minutes.

Senator ROCKEFELLER. You talk about technology, and it is sort of carrying over from Sue Schwab. Essentially you come down to the fact that we have a private economy, and if you start talking about the government intervening too much, people start talking about an industrial policy, and then everybody's eyes glaze over and everybody walks off in the other direction. In the meantime, we are losing market share.

I am not sure in my own mind that there is any change in that. In other words, I am not sure that there is an improvement. We may be exporting more. The Japanese may be importing a little bit more, but still in terms of a relative situation, I am not sure that we are really improving.

So, you then come to the question of what does the United States Government do. You are talking about technology. Bobby Inman said correctly that there are 12 different government agencies that are responsible for research and development—

Mr. HINER. Yes.

Senator ROCKEFELLER [continuing]. In terms of this effort to help get leading edge technologies, which you refer to. I cannot tell you what the 12 are. I can tell you that the result does not seem to be very dramatic. Sematech and others—that whole concept of do you get together, the government and industry. Do you collude? Do you allow companies to get together to look at research and try to in-

crease their technological edge? Generally society says, no, you cannot do that. It is not the American way.

Intellectual property. I mean, we have virtually given or sold, to my count over the last 30 or 40 years through maybe some 17,000 different transactions probably involving no more than \$20 billion, our technology, our intellectual property, our technology, to others, particularly the Japanese. Where they are today is primarily because American business was willing to allow that to happen.

You know, as well as I do, that if you try to get through the Japanese Patent Office, it is about a six or seven year process. Technology does not last that long. You have to get through in two years or else you might as well not be there. And so, you end up giving them your technology in exchange for a patent permit. That is a government thing in Japan that they caused.

But American industry, generally speaking, and the American public, generally speaking, have been willing to sell our technology, give our technology, make our technology available and our Federal laboratories and universities to others asking nothing in return. That would seem to me to be fairly discouraging.

Now you are talking about doing a better job at it. What role does the government, in fact, really have, do you think in that?

Mr. HINER. I certainly think that government has a role to play in the protection of our technology in making sure that our intellectual property, as it is transferred or as it is licensed, is truly protected in the countries where we do that, particularly in developing countries. And I would think as we negotiate trade agreements with those countries, that a big part of that negotiation, that an absolute inclusion, a demand, should be the recognition of and the protection of the intellectual property that we pass on with our exports or with anything that we transfer to that country. I believe that would be a very positive impact.

Senator ROCKEFELLER. Glen, being a West Virginian, born in West Virginia and educated in West Virginia and now being one of the five best managers in American private industry, what it is that one does to a rural state, what does one say to people, what does one do as either a state function, a government function to get people to understand that exporting equals dollars?

You and I both know that, as I indicated before, West Virginia is number five. I think at one point it was number three in terms of manufactured products, the percentage that are exported. That is a stunning fact. GE Plastics lives by that. But you talk about exporting often in West Virginia, and people just do not want to hear about it. They just do not think that way. What counsel do you have generally?

Mr. HINER. I think the counsel that you provide in that case to the people of West Virginia is a recognition that the world is shrinking and that there is no longer any single or individual market for which you compete, that the world is a global marketplace, and that the competitors are global in nature, and that if you do not compete for export goods, export opportunities, then you really are not competing for the business opportunities in your state, your own region or in our country.

And along those lines, the things that make you competitive and that make you a world class supplier in West Virginia or in the

United States are the same things that make you a world class company and competitor in the world marketplace. And it starts with quality, and it continues with productivity. You make the best goods that are available anyplace in the world and you provide it through the most productive work force that is available, and you work every day to make the product you are making better tomorrow than it was yesterday and better next week than you ever thought it would be. And if you continue to do that, and if you continue to stand behind that, that theory, that theorem, export will be a secondhand nature and an everyday attitude of business.

• Senator ROCKEFELLER. But then explain this to me. We passed in this Congress back in 1985 a little bill called the Japanese Technology Literature Act. And it simply put the Department of Commerce into the business of trying to translate key areas from the some 10,000 Japanese non-classified technological journals, articles that are published during the course of a year. The only private business which had been engaged in that went broke I think about a year ago. The response to this act by the agency in the Department of Commerce; which—Jacob Javitz' daughter who is fluent in Japanese is now running that.

I cannot tell you how many times I have sat with American businessmen and women and asked them what do they learn from the Japanese, how do they keep up with what the Japanese are doing. The Japanese basic research is growing stronger. Their applied research is growing much stronger. It is awesome. There are very few takers for that literature. There is not, as I read it, the instinct on the part of American business which says we have something to learn in the areas of applied research and in the areas of what is being published in Japan.

How do I reconcile that instinct with what you are telling me?

Mr. HINER. Well, I think if you really want to confine the competitive nature to the Japanese, I would say to compete with the Japanese, you have to compete in Japan with them, and that you have to be a competitor on the Island of Japan or on its islands just as you are in the United States. And I would say that having a strong presence in Japan or in any other large marketplace not only makes you a stronger global company, but it also makes you a stronger U.S. exporter.

Senator ROCKEFELLER. Does GE Plastics have formal corporate representation in Japan?

Mr. HINER. We have formal representation in Japan in the form of I believe five manufacturing plants that produce solely for consumption in Japan and are a part of our total program for supplying products to the Japanese marketplace. And that is in addition to the significant exports that we have coming out of both our New York plant and our West Virginia plants that go into Japan.

Senator ROCKEFELLER. Do you have people or a person who works for GE Plastics whose job in Japan is to work the government, indeed, Japanese have people, usually ours, here working our process?

Mr. HINER. Yes. We have people that are headquartered in Tokyo whose responsibility is to work that process.

Senator ROCKEFELLER. They are government relations people.

Mr. HINER. They are people who have a definition in their responsibility of government relations.

Senator ROCKEFELLER. So, they work the agencies, they work the ministry of finance or MITI or whatever it is—

Mr. HINER. Yes.

Senator ROCKEFELLER [continuing]. On behalf of GE Plastics trying to push away barriers or to get through screens.

Mr. HINER. Certainly in understanding the barriers and understanding the process of working them. If we get into the specific area of a patent opportunity or wanting to push one of our patents in the Japanese process, then we would hire outside experts to do that. But they would work through people that we have located in Japan.

Senator ROCKEFELLER. Do your people in Japan speak Japanese?

Mr. HINER. Most of our people in Japan are fluent in Japanese. Some of them are, of course, Japanese nationals and that is their common language.

Senator ROCKEFELLER. What trends do you see—you know, if I am saying that a little over 2,500 businesses, give or take a few, do 70 percent of exports—and those are multinationals. That is not an extraordinary figure.

Mr. HINER. Yes.

Senator ROCKEFELLER. What changes in attitude do you see on the part of American business that is going away from what I earlier talked about, this kind of softer, almost kind of an arrogance during the 1950s and 1960s and 1970s when we really did not have to work that hard because there was not any competition out there? I think we had our first trade deficit with Japan back in 1962.

Mr. HINER. Yes.

Senator ROCKEFELLER. Nixon abandoned the Bretton Woods system of fixed exchange rates in 1972 in part because of I think a \$2 billion trade deficit, maybe a \$4 billion trade deficit with Japan at that time. Still nobody pays any attention. We had no trade until 1981, in fact, maybe in 1980. And then in 1984, it is not an issue in the 1984 campaign that I can remember. Presidentially, nobody talked about trade and the trade deficit. Then all of a sudden, it begins to really loom large, and then we understand that the Japanese are paying for our quarterly Treasury bond sales, or at least a third of them, and we discover ourselves to be deficient. And then the trade act comes after that.

Really the first aggressive action that the government took was the semiconductor matter with Japan. I would criticize us in government as having reacted slowly to what has been a long developing problem certainly with Japan and generally globally.

Do you notice a difference on the part of the business community and what kinds of differences do you notice which disprove the skepticism which I revealed in saying that when American business was offered a chance to read technological journals, they simply declined. They say we already are familiar with this technology.

Mr. HINER. I think I would defer the general response to that question to my associates on my left and right who represent

larger associations and industry in general, but I would be happy to respond on the part of GE as a company.

I think we, I would say, along with U.S. industry, do have a better recognition today of what we would call a global marketplace. And we certainly see the consolidations that have gone on around the globe as various competitors in certain segments have gone together to make larger, stronger global competitors who compete not only in the U.S. marketplace for our business here, but compete in their own native market plus third world markets against us. And I think that we have expanded our position to strengthen our 14 key businesses so that not only are we a strong U.S. competitor, but we are a supplier and a strong competitor in world markets against world-class competition. I think that is the recognition that has gone on, and I think that is the recognition that American industry has made to do its part to set forth a stronger export position.

Senator ROCKEFELLER. This is a little bit off the subject, but I am curious about it. How have you seen GE Plastics change over the last 10 years, let's say, in terms of the way work is carried out in your American operations, in labor-management relations, in approach to the common purpose of management and labor trying to sell products in this country and overseas?

Mr. HINER. Well, we are probably a little bit different than the rest of American industry or what I would say the norm over the past 10 years, Senator, with respect to the fact that we have been growing very rapidly. We have been adding employees at a fairly rapid pace. We have opened new plants so that we have a relatively young work force, a work force who is relatively new to our business and to our company.

I would say if there is any change that has been dramatized over the period of time, it has been a higher degree of participation in the management and the decision making process of the business more empowerment to people on the floor, people in the production process who understand that process and who can add to its effectiveness and its efficiency and to make us a more productive company. I think there is less top down directive, more parallel decision making, more participative management than there was 10 years ago.

Senator ROCKEFELLER. My final question, a typical type question. But if there were one or two things that you would like to see the U. S. Government do either more of or begin to do that would help in export promotion, what would that be?

Mr. HINER. Well, first of all, I would recommend that we recognize the technology of this country and recognize more openly and more expansively that technology leadership is a key to commerce leadership and it will enhance our export position. I truly believe in that. And along that line, I would say that as we go forward in the negotiation of our trade agreements, that we make the protection of our intellectual property a first consideration or a high consideration as we negotiate those agreements. I think that will stand us in good stead.

I cannot help but give you a current day example that happened to me yesterday.

Senator ROCKEFELLER. Good.

Mr. HINER. You may have read in the "Wall Street Journal" about six weeks ago an expose story. It was a highlight story about the theft of trade secrets and trade documents from one of my plants in Ohio where we produce manmade diamonds for the abrasive market and of which the product we produce there, about 60 percent is exported.

One of our former employees in the early 1980s had stolen our technology, had taken it home with him, had taken it out, and had left our employ and gone to work for another company. And we discovered through a circuitous route that he had sold that information and that technology to—two foreign companies. And we worked with the U.S. Government in turning over that information, and participated with them in his prosecution.

We were called yesterday by the U.S. Attorney's Office to tell us that they had now gone through plea bargaining with this gentleman and wanted to review with us their imposed penalty against this man for this crime. And I was shocked when told that the penalty that the U.S. Attorney had recommended for this individual is six months confinement at home, that he would be allowed to go to work, that he would be allowed to go to church, that he would be allowed to go for medical care, or almost any other routine activity that he had, and that his entire penalty for the stealing of U.S. technology, which I value somewhere in the neighborhood of \$100 million, is just ludicrous when we think about the propriety that we have and the world leadership positions that we have, to think that that is all we would think about the value of that and a penalty that a convict, as far as I am concerned, would receive for doing something like that.

Senator ROCKEFELLER. I would share those sentiments.

Glen Hiner, I thank you very, very much. I thank you for the work that you and your company are doing in West Virginia. I reflect back first when GE Plastics purchased Borg Warner and there was a great deal of concern in the Wood County area, and that was the natural kind of concern I think that would come in West Virginia when there is to be a shift because man kind of always assumes the worst. But in this case, I think that is all ancient history and long forgotten. And it is a matter of enormous pride that not just that GE Plastics is a part of the West Virginia corporate scene, but that you are at the helm of it.

Mr. HINER. Thank you very much.

Senator ROCKEFELLER. So, with that cruel statement, you can head for the airport.

Mr. HINER. I apologize for having to leave early to the rest of my panel. I have enjoyed being with you. Thank you so much.

Senator ROCKEFELLER. Nancie Johnson, can I call on you to give your testimony and then, Mark, you also to give yours? And then we will have some questions.

Ms. JOHNSON. Good morning, Mr. Chairman.

Senator ROCKEFELLER. And I apologize for keeping you waiting.

Ms. JOHNSON. No problem at all.

STATEMENT OF NANCIE JOHNSON, MANAGER OF INTERNATIONAL TRADE AND INVESTMENT, E.I. DuPONT, REPRESENTING THE CHEMICAL MANUFACTURERS ASSOCIATION

Ms. JOHNSON. My name is Nancie Johnson, and I am Manager of International Trade and Investment for the DuPont Company. I am appearing here today on behalf of the Chemical Manufacturers Association, CMA, as the Chairman of CMA's International Trade Policy Committee. We welcome this opportunity to discuss export issues with you.

Senator ROCKEFELLER. Your whole statement, incidentally, will be in the record. Are you summarizing from it?

Ms. JOHNSON. I am. I was about to say that, but I first wanted to say that it is a particular pleasure for me to appear before you who represent a state that so many DuPont employees call home.

Senator ROCKEFELLER. That is correct.

Ms. JOHNSON. And with the understanding that the full statement will be included in the record, let me briefly summarize what the main points of it are.

CMA is a nonprofit trade association whose member companies account for about 90 percent of productive capacity for industrial chemicals in the United States. CMA's members include U.S. based companies and the subsidiaries of foreign companies. All of us export chemical products throughout the world.

The U.S. chemical industry is and has been for several years a net exporter. In 1989 total U.S. chemical shipments were valued at \$255 billion; 15 percent of these shipments were exports. And our industry contributed a positive \$16 billion to the U.S. trade balance. In addition, a large share of our domestic sales end up being components in other manufactured goods that are also exported.

Clearly, we have a vital interest in U.S. export policies. These can be placed into three general categories: export incentives or promotion, efforts to reduce foreign barriers to U.S. exports, and export controls or restrictions. Among these export related policies, a disturbing degree of tension exists which leaves the U.S. in CMA's view with an overall export policy that is somewhat contradictory. Let me touch on each category I mentioned in order to illustrate this concern.

U.S. export promotion policies and programs include things like the foreign sales corporation, export trading companies, the Ex-Im Bank, the trade and development program, and the many important services offered by the Department of Commerce. CMA supports all of these activities as they benefit some of our members and many, many more of our customers.

Export policies that have been more directly beneficial to CMA members, however, are those that promote trade liberalization between the U.S. and key foreign markets. The U.S.-Canada Free Trade Agreement is a principal example in this regard. The eventual elimination of tariff and other trade and investment barriers between the U.S. and Canada will not only create new export opportunities for U.S. chemical companies, it will also allow us to plan and invest for a larger integrated North American market.

Similar negotiations may soon get under way with Mexico. I was interested to see the headlines in the business section today. These

negotiations have a similar potential for expanded market opportunities as the FTA did with Canada. CMA views bilateral arrangements such as these, which are truly trade creating, as being complementary to multilateral trade liberalization efforts. Let me turn to those.

On the multilateral front, the focus is on the Uruguay round of multilateral trade negotiations, or the MTN, which is now going on in Geneva. CMA has actively supported the MTN process as the best means for reduction and eventual elimination of all tariff and non-tariff trade distortions. Our top priorities for the round are threefold: genuine improvement in market access for U.S. chemicals, strengthen protections for intellectual property, and greater discipline over trade related investment measures. I will be happy to elaborate on our specific goals in each of these areas if you have questions about them.

CMA views domestic initiatives to promote exports and U.S. leadership of multilateral efforts to liberalize trade as consistent and positive policies. These policies tend to be undermined and contradicted, however, by parallel policies that control exports. Other witnesses present have greater experience with the problems presented by export controls like those based on the Export Administration Act. CMA shares their concern with unilateral export controls that have been ineffective in achieving the desired foreign policy result. These export controls have caused our industry to forego export sales leaving them instead to our foreign competition.

Let me add that the chemical industry finds itself heavily impacted by laudable policies specific to our industry such as efforts to control the proliferation of chemical weapons or the diversion of chemical products to the production of illicit drugs. While we support the goals of such policies, we must caution against their impact on legitimate exports of U.S. chemicals.

In conclusion, U.S. chemical exports are a net plus for our country's economy. Where possible, domestic incentives should encourage these exports as should our multilateral trade liberalization efforts. Where export controls or restrictions are deemed to be necessary, multilateral approaches are likely to be more effective and less damaging to the U.S. chemical industry's legitimate trade interests.

Thank you. And I will be happy to respond to questions.
[The statement follows:]

TESTIMONY OF THE
CHEMICAL MANUFACTURERS ASSOCIATION

The Chemical Manufacturers Association (CMA) welcomes this opportunity to discuss export promotion issues with the Subcommittee on Foreign Commerce and Tourism. All facets of export policy -- export promotion, restrictions on U.S. exports to other countries, and export barriers created abroad -- have become central elements in the national policy debate surrounding the trade balance, the budget deficit, and the economic future of the United States.

CMA is a nonprofit trade association whose member companies represent 90 percent of the productive capacity for basic industrial chemicals in the United States. CMA's members include U.S.-based companies and the subsidiaries of foreign companies. These companies export chemical products throughout the world. Consequently, the U.S. chemical industry has a significant interest in discussions concerning U.S. exports and measures designed to improve the Nation's export performance.

The U.S. chemical industry's position as a net exporter is very important to the health of the U.S. economy. U.S. chemical shipments totaled \$255 billion in 1989, 15 percent of which were exports. The industry returned a positive \$16 billion contribution to the overall U.S. trade balance, continuing approximately three years of record-setting performances by chemical manufacturers. The outlook for the future is good, albeit at rates of growth lower than in the past few years (due to anticipated lower growth in major developed countries).

Despite the chemical industry's excellent record, there is cause for concern. The industry's traditional strength in exports is being threatened, both by U.S. domestic policies and barriers to U.S. products erected by foreign governments. In domestic policy, the U.S. government appears to be following a somewhat contradictory approach. On one hand, exports are promoted as one means of addressing our economic problems. On the other hand, U.S. policymakers use export controls to achieve other policy goals, often unrelated to business or economic concerns. In brief, exports are considered a weapon in the foreign policy arena, instead of an economic asset. In CMA's experience, unilateral export controls rarely achieve the underlying policy goal, while the domestic industry suffers an unnecessary burden in foregone export sales.

Internationally, two principal types of barriers have been encountered by U.S. chemical manufacturers, which tend to restrict exports. The tariff policies of some foreign governments tend to restrict the export of U.S. products by making them relatively more expensive than domestically-produced goods. A range of non-tariff

barriers, including inadequate protection of intellectual property rights and restrictions on investments, also hinder the free flow of chemical trade.

CMA is convinced that efforts to promote U.S. exports must take into account the tensions created by domestic and international developments. Multilateral negotiations, such as the ongoing Uruguay Round of trade negotiations in the General Agreement on Tariffs and Trade (GATT) hold great promise as a means for improving international trade disciplines. As a result of these and similar negotiations in other fora, international trade should be liberalized substantially. At the same time, other initiatives underway in the so-called "Eastern Bloc" should further reduce the pressures for domestic export controls. CMA believes the Subcommittee's study of export incentives and disincentives is an important step in recognizing the importance of exports as a keystone to the overall economic health of the United States.

II. Chemical Industry Overview

In June, 1988, CMA testified before this Subcommittee on the future competitiveness of the U.S. chemical industry. At that time, we indicated that although the industry had weathered the economic storm of the late 70's and early 80's, several factors deserved continued attention. We predicted that competition for manufactured goods in the global market would become more intense, and that accelerated technological changes, national government policies, the globalization of the industry, and changes in the patterns of trade would create immense pressures both here and abroad.

The accuracy of CMA's concerns have been amply demonstrated in the two short years since that testimony. If anything, the effect of government policies in a variety of areas has become more pronounced. Tax, trade, investment, and regulatory policies, the effect of foreign exchange rates and feedstock prices have all had a demonstrable effect on the U.S. chemical industry. Global competition has certainly become more intense. This trend will continue, particularly with the advent of the integrated European Community Market in 1993 and new productive capacity in Asia and the Middle East coming on line.

The U.S. chemical industry's recent performance is strong testimony to the importance of exports. In 1988, U.S. manufacturers made a \$12 billion positive contribution to the trade balance, with exports constituting 13.5 percent of all industry shipments. In 1989, 15 percent of total shipments (\$255 billion) were exports, increasing the industry's trade surplus to \$16 billion. According to the Department of Commerce, in 1989 over 26 percent of total U.S. chemical exports went to the European Community; nearly 12 percent were destined for Canada.

International investment opportunities have a direct impact on the industry's performance. Foreign affiliates of U.S. companies, and the U.S. affiliates of foreign companies, combined to contribute \$4.9 billion to the merchandise trade surplus in 1987, the most recent year for which data is available. U.S. chemical industry income from its international investments exceeds the income of foreign investments in the United States, and the industry is expected to maintain a surplus in its total international transaction balance.

Exports -- and the right climate for making export related investments -- have helped the U.S. industry compete on a global basis. Unwarranted restrictions on exports could negatively affect the future competitiveness of one of the few bright spots in the country's overall trade picture. Free market access is an absolute necessity for a competitive U.S. chemical industry in the future.

III. Domestic Export Incentives and Disincentives

In CMA's view, there is no ground for complacency about the health of the U.S. chemical industry. Chemical manufacturers have performed well, but the ability to continue that performance into the future must be tempered by a recognition that programs and policies instituted by the U.S. government have an effect on exports.

U.S. export incentives include such measures as Foreign Sales Corporations (FSCs), and Export Trading Companies (ETCs). These programs, as well as the Department of Commerce's Foreign Commercial Service, are designed primarily to assist smaller companies improve their export opportunities. CMA member companies have little practical experience with the FSCs or ETCs, although many are investigating the tax and trade incentives created by the programs.

Improved export opportunities have been created by U.S. agreement to several bilateral trade arrangements. The U.S.-Canada Free Trade Agreement, which the industry strongly supported, will eventually eliminate tariffs on most products traded between the two countries. The tariffs on chemical products are generally subject to reduction or elimination before the ten-year phase-out on other products. The lack of a tariff on U.S. chemicals exported to Canada will make U.S.

products more competitive, thereby spurring additional exports. Negotiations toward a U.S.-Mexican Free Trade Agreement will begin on May 25, and if successful should present further possibilities for U.S. exporters.

Although export incentives have helped improve the overall climate for U.S. goods and services in foreign markets, the U.S. government also pursues other policy goals through exports. Chemical weapons non-proliferation, preventing diversion of legitimate chemicals to drug manufacturing, economic sanctions imposed for moral and political reasons, restrictions on technology transfers, and environmental policies are all being pursued through export controls. This somewhat contradictory policy approach -- promoting exports but placing restrictions on them at the same time -- threatens U.S. exports just as surely as foreign tariff and non-tariff trade barriers.

CMA generally supports the policy goals and purposes identified in these programs. Our association has been a leader in opposing the use of chemical weapons and we have worked closely with the Drug Enforcement Administration in controlling diversions of chemicals to illegal drug production. But while the goals are laudable, CMA is concerned that the control mechanisms are constraining legitimate exports of U.S. chemicals.

One type of export control mechanism is the validated license, administered generally by the Department of Commerce under its Export Administration Act authority. Exports requiring a validated license must undergo a lengthy review process, which can be exacerbated by reviews which may be required by the Departments of State and Defense (particularly for chemical products which are weapons precursors). The

reporting and record-keeping burden associated with this and other control efforts imposes significant transactions costs on U.S. businesses that are unlike any costs imposed on foreign competitors.

The impact of the various U.S. export controls have led CMA to conclude that the most effective approach is multilateral rather than unilateral. Chemical products and equipment are ubiquitous in today's global market. Attempts to restrict trade in a given area, imposed only by the United States, are an anachronism. Indeed, CMA suggests that efforts by the U.S. government to close a foreign market are unproductive.

Similarly, other government policies -- tax, trade, environmental -- impose direct costs on U.S. manufacturers, and may make U.S. products less competitive overseas than they would be otherwise. CMA suggests that more careful coordination of the various policies would help avoid any unnecessary conflicts. For example, tax policy helps determine the international competitiveness of the industry, which depends on extensive research and development. In broad terms, tax policy helps determines the rate of return on invested capital, and in turn drives new investment decisions (such as those in R & D). No one policy area by itself threatens to shut down the U.S. export trade. However, the combined effect of governmental policies is very likely to make U.S. exports more expensive, and thus less competitive. The United States no longer occupies the dominant market position it once did, and the added costs of new government policies and regulations can no longer be passed on directly to customers, either domestic or foreign.

IV. Foreign Barriers to Trade/Multilateral Disciplines

CMA has testified before this Subcommittee, the House of Representatives, and the U.S. Trade Representative on the effect of foreign tariff and non-tariff barriers to trade. These barriers to trade are of considerable importance to the U.S. chemical industry, as they have the most direct impact on exports of the U.S.-origin chemicals.

CMA member companies have encountered some problems with foreign tariff policies, particularly in those countries which have not bound their rates, or which continue to insist on inappropriately high tariff rates as exclusionary measures to protect domestic markets. In the non-tariff area, the U.S. chemical industry faces controls as diverse as credit controls, import licensing procedures, inadequate intellectual property protections, restrictions on repatriation of profits, energy price controls, customs valuations, and a lack of national treatment. Even procedures as theoretically innocuous as pre-shipment inspections, used by some developing countries to prevent capital flight, can establish a barrier to U.S. exports if applied in a discriminatory manner.

CMA is convinced that multilateral disciplines are the key to reducing, and eventually eliminating, all tariff and non-tariff trade barriers. Our association has been a strong supporter of U.S. participation in the Uruguay Round of GATT talks, as have the CMA member companies who participate in the Industry Sector Advisory Committee (ISAC-3), which advises the Department of Commerce on trade matters. CMA's primary interest throughout the Round has been to

improve market access for U.S. chemical products overseas, with appropriate recognition for the needs of less developed countries.

Two chemical industry priorities in the Round have been trade-related intellectual property (TRIPs) and trade-related investment measures (TRIMs). Inadequate intellectual property protection creates a major distortion in international trade. It is estimated that U.S. intellectual property owners lost between \$43 and \$61 billion in 1989 due to an inability to protect their intellectual property. The GATT negotiating group on TRIPs is considering a number of proposals to enhance intellectual property protections, which will hopefully set high international standards of protection and assure adequate enforcement through harmonized national laws. International agreement on intellectual property should help promote exports of U.S. products, particularly as U.S. industrial interests could then be assured an opportunity to recoup the considerable investment made in developing new products.

The U.S. chemical industry also has a major stake in international investment policy. The U.S. chemical industry can be seen as more "foreign owned" than some other industrial sectors, but investment restrictions would do more harm than good. Indeed, the U.S. subsidiaries of foreign chemical companies continue to make a positive contribution to the National economy. A GATT agreement on international investment restrictions could provide significant export-related benefits. Trade-distorting investment restrictions include:

- o prohibition of foreign investment in certain industrial sectors;
- o screening of investment proposals by government agencies;

- o limitations on equity that can be owned by foreigners;
- o performance requirements; and
- o agency and distributorship restrictions.

A multilateral approach to removing export barriers is required if we are to achieve the "level playing field" the U.S. chemical industry needs to remain competitive in a global economy. Perhaps more importantly, a multilateral forum like the GATT provides an excellent opportunity to convince developing countries -- the sponsors of some of the most restrictive non-tariff barriers -- that such barriers are contrary to their national interests.

V. Conclusion

The U.S. chemical industry has consistently performed well in the export arena, and currently enjoys a solid position in the global chemicals market. CMA is concerned, however, that despite the U.S. government's efforts to promote U.S. exports, the industry's position is threatened by other developments.

The single greatest threat to U.S. exports appears to be domestic. There appears to be increasing reliance on U.S. export controls as the tools to implement U.S. trade and foreign policy measures. The cumulative effect of compounding U.S. economic and fiscal policies -- such as taxes, environmental regulation, and even monetary supply decisions -- could wreak havoc with the chemical industry's net exporter status.

Foreign barriers to U.S. trade also impose a significant threat to the industry. National laws which restrict access to intellectual property protection and investment opportunities, and foreign tariff policies, also tend to limit export possibilities. Use of multilateral negotiating opportunities, such as the ongoing Uruguay Round of trade talks, provides the single best opportunity to promote U.S. exports and avoid restrictive unilateral policies.

CMA looks forward to working with the Subcommittee in its study of U.S. exports and the means necessary to assure a strong export component in the U.S. economy.

Senator ROCKEFELLER. Thank you, Ms. Johnson, very much.
Mr. Van Fleet.

**STATEMENT OF MARK VAN FLEET, DIRECTOR OF EXPORT
PROMOTION, U.S. CHAMBER OF COMMERCE**

Mr. VAN FLEET. Mr. Chairman, thank you for including me in this discussion. We at the Chamber appreciate your leadership in this very important topic that I think does not receive enough attention.

We have been doing more and more in this whole area.

Senator ROCKEFELLER. You represent particularly small and medium size businesses, do you not?

Mr. VAN FLEET. Right, sir. We have 180,000 members and about 90 percent of those are companies with fewer than 20 employees.

Senator ROCKEFELLER. But your specialty is in that area? It was my understanding that your specialty is in the medium and small size businesses.

Mr. VAN FLEET. Well, I have two specialties personally. One is export expansion, small and mid-size, but also our larger firms. We try to do the things that Nancie mentioned as well. And Asia Pacific is my regional specialty, Asia Pacific affairs.

For the interest of time, I will try to summarize very quickly some of my points I made in my testimony.

Basically we feel that, one, our companies have to go international, more and more of them. The 18,000 companies you mentioned that are already exporting from your state—I believe that was the figure—those companies will have to be joined by other companies. We think competitive pressures are such that many, many companies will simply have to go international, not just because they need to get market share overseas, but to protect their own domestic market share. We are in a global marketplace. It is a cliché now, but it is starting to hit home.

And in my view, to answer your other question about do we see a changing attitude, I think it is starting to change. I think more and more companies are starting to realize they have to, at a minimum, know what their competitors are doing overseas in order to protect their own market share.

[The statement follows:]

STATEMENT OF THE U.S. CHAMBER OF COMMERCE

Mr. Chairman and members of the Subcommittee, I am Mark Van Fleet, Director of Export Expansion for the U.S. Chamber of Commerce, on whose behalf I testify today. I appreciate your invitation to comment on U.S. government export promotion programs.

Whether the next generation of Americans can expect a higher standard of living depends increasingly on how well U.S. business competes in international markets. This is not an exaggeration.

The global market is not some vague future event; it exists now. Over 70 percent of all U.S. manufactured goods compete directly with foreign imports. Total trade represents well over 25 percent of the U.S. Gross National Product (GNP). This is a sharp increase from just a few years ago. The U.S.'s growing reliance on foreign capital flows continues to tie it to events in Japan and the European Community. Changes in foreign exchange or interest rates now almost instantaneously reverberate in the U.S., and vice versa.

As the U.S. economy integrates with the rest of the world, we will confront challenges to our political and economic leadership. We are faced with two choices: meet the pressure of world competition or escape into a new isolation or improve our competitive position or suffer a slow decline in both quality of life and world influence.

Adjusting to these pressures and opportunities demands a hard assessment of what has or has not worked for the U.S. in the past and what it needs to do to improve its performance. One thing is clear: without a strong, world competitive economy, fostered in important ways by vigorous exports, the U.S. cannot maintain its position on either the security or political fronts. We simply cannot afford to subordinate our economic interests to "larger" security or foreign policy priorities. We also need to improve the way the U.S. government interacts with the private sector and the way different elements of the federal government harness their efforts in pursuit of the same strategic goals.

The proper role of the federal government in the promotion of U.S. exports raises several of these issues. In this and other ingredients of an improved competitive performance, a clear consensus still eludes us. Too often we debate the relative merits of total laissez faire versus "industrial policy." Too often we get bogged down in these black/white arguments and never come up with the innovative thinking we so desperately need.

Other than creating the conditions supportive of American business competitiveness--for example, the right monetary and fiscal policies, an adequate national infrastructure, an educational system that meets the

demands of future production, and the promotion of fair trading rules among nations--what more should the federal government take on?

In responding to this question, I want to make three related points.

First, trends in the world economy will pressure many U.S. companies to enter the international arena. At a minimum, they must keep tabs on what the foreign competition is up to in order to maintain U.S. market share. Can we afford to rely only on domestic sales when the word "domestic" is losing its meaning, when foreign commercial influences strike everything from the corner convenience store to our largest corporations?

Second, there will be a need for services to help these firms adjust to these international forces. Such services will have to be affordable and relevant enough for the U.S. business executive to obtain the information and assistance needed to excel abroad.

Third, foreign governments generally provide more such services to their firms than does the U.S. Motivating and arming their companies for international competition through information, subsidized financing, tax policies, and various kinds of hand-holding and assistance is a prime element in the national export strategies of our competitors. As this interaction between foreign officials and private resources advances, to the disadvantage of U.S. business, can we afford not to at least have a strategy to respond?

Finally, the U.S.'s current national system of export assistance, both private and public, needs improvement. In this interdependent economy, U.S. exporters and investors are often left to go it alone against competitors whose national systems are more supportive.

I would like to focus the rest of my remarks on just how the U.S. can begin to improve its national export promotion system. While the federal role in this task is important, it is by no means the only or even the most important player.

Better Coordination Among Federal Agencies

Better coordination among federal agencies in the area of export promotion is an important challenge. Lack of consistency and joint planning creates a federal effort that is too often disjointed. Every year policymakers acknowledge this problem and pledge to do something about it. Unfortunately, the effort remains fragmented among many agencies and departments, each with its own mandate, priorities, and budget constraints. Better mechanisms to ensure at least quarterly consultations, and perhaps organization of those agencies concerned with the promotion of international business, (such as the Overseas Private Investment Corp., the Export-Import Bank, the Trade Development Program, the Department of Commerce, and parts of the Agency for International Development) under some larger management structure need to be explored.

At a minimum, the federal government should have an overall promotion strategy that involves coordination among agencies and other private and official players in the promotion system. I suspect that trade promotion remains a back-burner issue; it is simply not a high national priority.

We must also design ways to resist bureaucratic turf consciousness. Perhaps the team approach used successfully by some major U.S. corporations to break down barriers between different operating units could serve as a model for government.

Proper coordination is wanting even within large federal departments. The General Accounting Office, for example, points out that the export promotion activities of the Department of Commerce's International Trade Administration are divided among three units. This division compounds the difficulties of coordination and accountability.

There is no question about the U.S. & Foreign Commercial Service's (US&FCS) commitment to export promotion. Significant progress has been made on many fronts since its creation in 1980. To the credit of its senior management, the US&FCS has recently completed a comprehensive review of business needs and how best it can focus its resources. This is the kind of thorough and honest analysis that is most valuable. The US&FCS will need the cooperation of business to build on this momentum and implement its new, more focused agenda.

Coordination with the Private Sector and State and Local Governments

This is perhaps the most important area for improvement. Traditionally, business has been suspicious of government intervention in the marketplace. Government often distrusts the ability of business to pursue national, as opposed to corporate, objectives. Such stereotypes stifle the sort of government-business collaboration that the U.S. must start practicing if it is to compete with its trading partners.

Given the budget deficit and the need to discipline federal spending, we simply must develop a better public-private partnership in the area of trade development. I'm not talking about "picking winners and losers" or about massive budget increases to subsidize the private sector. What we need is a national effort to overcome the obstacles faced by U.S. exporters.

The federal government should rely much more on private business organizations as a way to extend and multiply its trade promotion efforts. While the US&FCS and the Small Business Administration have tried to expand cooperation with these private players, the potential gain from greater joint action has been little realized.

Such organizations as local chambers of commerce represent a vast storehouse of practical knowledge and thousands of potential exporters. They are often the most credible idea-brokers to local businesses, catalysts for innovation, and trusted clearinghouses of information. Local chambers and state and federal agencies already exhibit good coordination on economic and business development fronts. For example, advice and information about

starting a new business locally are widely available around the country. Our challenge is to forge a local support network for export promotion analogous to this domestic business dimension.

The U.S. Chamber recently completed a survey of its 2700 local chamber members to determine their interest in international business promotion. More than 400 reported sponsoring programs to encourage their members to enter foreign markets; 800 said that they had no such programs. The vast majority said that they would expand or initiate international programs if they had more information and better trained staff. Their greatest need is timely, accurate information on foreign business opportunities and some short-term "how to" counselling. Lack of such information is seen by these chambers as the greatest single reason that more of their members do not export. It is also where the US&FCS can be most helpful.

The completion of the Commercial Information Management Systems (CIMS) could be a real boost in this effort. It demands priority attention by the Department of Commerce management. Ensuring that the information that CIMS distributes is current and immediately usable is the first step; delivering it quickly to users is equally important. By "users" I do not mean just other government agencies. A possible approach could be to privatize the distribution of the intelligence, leaving its collection and refinement in the hands of specialized government personnel.

To strengthen the linkages between the local "multipliers" and the federal government, we offer the following ideas for your review:

- Federal agencies should consider ways that private sector organizations could be better used to work as grass-roots systems to expand international commerce.
- Agencies should reorient their thinking to consider doing at least a portion of their marketing and information work for business through business organizations, such as chambers of commerce, world trade clubs, and American chambers abroad.
- The trade promotion performance of agency staffs should not be based on "body counts" of how many people they talked to--this is meaningless--but on establishing working relations with organizations that can serve as a network to local businesses.
- Agency staffs should allocate a portion of their operating funds to provide information specifically designed for multiplier functions to be performed by business organizations.

National trade associations should also be more active. Here again the track record of broad, substantive joint action with federal agencies is spotty. Recently I have been meeting with a group of association executives to discuss export promotion. We agree that much more attention needs to be focused on developing a consultative process to ensure that the private sector becomes a real partner in the planning and execution of trade development initiatives. One priority should be to implement the "Market Development Cooperator Program" through the U.S. Department of Commerce, as authorized by the 1988 Trade and Competitiveness Act.

One strategy often used to promote more private sector input into federal programs is the business advisory council. While sometimes influential, too often such groups are collections of "safe" political appointees that lack staff resources, meet too infrequently, and are dominated by the agencies they are supposed to advise. All too often the recommendations of such advisors are simply ignored or allowed to languish.

We have confidence that a recently rechartered business advisory group to the US&FCS, which the U.S. Chamber has long supported, will be able to break this mold and achieve some concrete results.

Export Financing and Mixed Credits

Current public and private resources devoted to export finance are inadequate to meet the competitive pressures faced by U.S. exporters. An adequately funded Export-Import Bank is an important component of the U.S. export drive. At the very time when opportunities for U.S. traders are growing, when U.S. firms are becoming more export competitive, Export-Import Bank programs have suffered cuts. This is especially disturbing in the direct loan program, where exporters can secure long-term, fixed rate financing assistance to match their foreign competitors. In fiscal year 1981, the direct loan authority level was \$5.4 billion. For fiscal year 1991, the Administration has requested \$500 million in the same category.

At the same time, commercial banks, especially those serving smaller companies outside the larger cities, are just not interested in trade finance. Efforts to encourage such banks to return to the trade business, such as the so-called Interest Equalization Program, should be supported.

The Chamber has long been an active supporter of an effective response to the use of mixed credit programs by U.S. competitors. Here, inadequate resources, an overreliance on negotiated solutions, and a reluctance to acknowledge the annual damage inflicted on our competitive position in many fast-growing Third World markets continues to weaken our overseas sales performance.

At issue is the ability of the U.S. to improve its trade balance in manufactured goods, now running huge deficits annually. Capital goods are the key to this effort, comprising approximately 45 percent of U.S. manufactured goods exports. We cannot expect to close the trade gap with agriculture and service exports alone; yet, it is precisely on the capital goods export market that foreign governments are concentrating their support, particularly with mixed credit programs.

The Chamber would much prefer that mixed credit practices were completely eliminated in the export market and that transactions for high technology, long-term capital projects were conducted on price, quality, technology, service, and delivery. We have no doubt that American firms under such circumstances would win their fair share of these markets, as they did until the early 1980s when foreign mixed credit programs were introduced. *

Fortunately, there are some positive developments. The Administration has demonstrated, in an Indonesian telecommunications project, a willingness to meet the mixed credits financing challenges of foreign governments. The

recently announced cooperative program between the Agency for International Development and the Export-Import Bank to offer competitive financing to four Asian countries is a good "shot across the bow" of those trading partners who have stolen capital goods markets in the developing world with impunity. Only when the U.S. begins to use its economic muscle in this way will there be any real incentive for other countries to return to pure market forces.

We hope this new initiative signals a realization that economic development and legitimate U.S. commercial interests are complementary and that support for capital projects advances both simultaneously.

More Resources for the U.S. & Foreign Commercial Service

The U.S. & Foreign Commercial Service, the core of the federal government's export promotion efforts, has suffered budget cuts that have steadily eroded its ability to help U.S. businesses to compete. This decline in resources saps the strength of U.S. front-line troops in the competitive battles that it now faces:

--A 20 percent decline in purchasing power between 1985 and 1988, when Gramm-Rudman-Hollings budget cuts and the dollar's depreciation are factored in.

--A 12 percent and 16 percent decline in foreign (20 positions) and domestic (57 positions) staffing, respectively, between 1985 and 1988.

--Closings of key Export Development Offices in Milan, San Paulo, Sydney, Singapore, and Bonn.

--Many remaining field offices hamstrung due to lack of basic budget support. Reports from American Chambers of Commerce overseas detail a US&FCS straining to meet commitments in the face of severe shortages of funds for field travel, long distance phone calls, and even postage and taxi fares.

The funding of U.S. export promotion programs is even more discouraging when compared to the programs of some of the U.S.'s competitors--Canada, France, Germany, Italy, Sweden, and the United Kingdom. Among these countries, in 1987 the U.S. ranked last in export spending per capita, in promotion spending related to GNP and in promotion spending related to total government spending.

The core problem lies with the U.S.'s weak overall commitment to export promotion, which needs reappraisal. Momentary enthusiasms, such as Export Now, however well-intentioned, cannot substitute for poorly supported basic programs. The US&FCS can and should be the lead agency in the U.S.'s export drive. With dwindling real resources, it can continue to exist, but it will win not be able to compete with the Germans, the Japanese, or the Italians.

Conclusion

The range of government and private support programs presently available to American business is extensive but flawed by lack of coordination

and inconsistent quality and coverage. At the federal level, this is due partly to budget restraints but also to a low priority for trade and economic objectives on the national policy agenda.

The U.S. can no longer afford the luxury of ignoring the needs of its exporters in the world competition for markets. A threadbare federal export promotion program is only one signal of this deeper problem that surfaces in several related ways through:

- A weakening export finance system;
- A reluctance to use resources to meet the threat of subsidized financing, especially "mixed credit" blending of aid and loans;
- A cumbersome and complex export control system;
- The too often automatic resort to economic sanctions to address foreign policy problems;
- A foreign assistance program too often indifferent to U.S. commercial interests; and,
- Tax policies that erode U.S. export competitiveness.

The private sector's zeal for export trade also comes up short primarily due to inadequate knowledge of foreign markets and the mechanics of exporting and a reluctance to develop and follow long-term export plans. Behind export success stories is usually a Chief Executive Officer committed to international business as a vital part of a firm's overall strategy.

According to management guru Peter Drucker, the growth in world trade will create opportunities for smaller firms able to exploit specialized niche markets. Their knowledge of their specific product lines worldwide and their overall dynamism will help them to succeed internationally. Special efforts are needed to identify firms with the most export potential, whet their appetites and nurture their interests into a pattern of successful foreign sales.

In the broader perspective, federal efforts need better focus. The various government agencies need to work with each other and with the private sector in a more coordinated way. If the U.S. is to increase and sustain its export momentum, it needs to think more strategically and act more aggressively.

The Chamber appreciates this opportunity to discuss some of the ways that the U.S. can begin to meet this challenge.

Senator ROCKEFELLER. And how do they find that out? How do they learn that?

Mr. HINER. One of the best ways is to get involved overseas, and that is why investment is always sort of left out here as a strategy for export. But it can be a very important strategy. Why do you think so many foreign firms are investing here? One of the reasons is they find it is a very good way to crack this market. So, when we do not invest over there, we lose the business intelligence and the knowledge of their technologies and marketing strategies that we need. If you are going to compete in a global marketplace, you have to have global presence.

Senator ROCKEFELLER. To both of you, the major internationals do that. And like Glen was indicating, they have people over there who are operating in their behalf with the same government agencies that others have here. And that is a relatively new phenomenon. I just lost my trade and Japan expert to Motorola, and I am sad for me but very happy for Motorola because he is going to be their guy working the government on behalf of Motorola in Japan. And he is fluent in the language and that is very advantageous.

But that is still a relatively new phenomenon, is it not, even with major companies like Motorola?

I remember Bob Galvin 15 years ago was your sort of classic free trader, and then he got into the business of trying to make a go of it in Japan, and he is always the first witness before the Finance Committee when it talks about toughening up trade laws.

Now, just reflecting both of you, the larger companies, versus small and mid-size, sophistication about export opportunities and how to carry those through and make them work, not just to make the effort and have the instinct to do it, but to make it work. How has that changed? How is that changing? Either of you. Mark, you might as well start, and then Nancie.

Mr. VAN FLEET. Well, I think you are absolutely right. Larger companies are starting to realize this interdependence is a matter of their survival and I think they are acting upon it. So, I think that is happening. More and more companies are putting people overseas for a longer time. They are training them in the languages, giving them more an opportunity to learn the culture. You cannot send somebody to Thailand or Japan and say, after a few months, where are the orders. We have to have longer term views. So, that is happening.

Now, in the smaller firms, many of them, most of them, do not have the resources to do that. And this is where the government comes in in my view. And what I think is the problem here is that you can do seminars, you can do information flow sort of activities, but a lot of these do not necessarily convince the people in your state, as you say, that export equal dollars.

Now, how do we get the information to them? I think one way is to use local business organizations in your state and in other states, local Chambers of Commerce. Another way is to use national trade associations. It would seem to me that these associations can play a very important role in getting the information, say, from Japan and getting it to their members large and small.

For instance, the American Electronics Association has an office in Tokyo, as you probably know, and that has been very effective.

That is the right kind of cooperation between the public and private sector, because the Department of Commerce does support that office in Japan. So, if you get these business groups that can represent broader constituencies, the small guys as well, they do the kind of homework about what is going on in Japan, and they take care of the distribution of that information back to their members here, it is a very fertile way for us to get something done.

There was something in the trade bill in 1988 called the association cooperator program that unfortunately was not implemented, and I would call that to your attention, Senator, as something that we might look at and see if we cannot get the administration to take that on.

Senator ROCKEFELLER. Let me get your answer, Nancie.

Ms. JOHNSON. I am going to give a very short one on behalf of CMA and then comment a little from the perspective of DuPont.

CMA, through the trade committee apparatus, which I am representing here as the chairman, devotes quite a bit of effort in trying to educate particularly its small and medium size members about trade issues and trade opportunities through the task forces and committees that are established, but also a newsletter that goes out regularly to the members.

And it is a source of great frustration to us that the response is always so weak. And I think part of that is the mind set of American business. We have had the luxury for most of the industrial period of being the largest market in the world. We still are. Between 22 and 24 percent of global GNP is right here. And so many manufacturers in particular have never had to be concerned about markets beyond the United States.

What I have seen happen within DuPont—and DuPont has always been a big international player. But when I joined them 10 years ago, there was clearly a mind set that we are an American based company who do a few exports. And there has been a sea change in that thinking. We have gone from that kind of mentality to one where our stated strategy is to become a truly great global company.

And following that, along the lines of what Mr. Hiner was saying and Mark as well, you need to be in those foreign markets not only because those are the growth markets, but because that is the best way to meet your competition to find out what they are doing, to learn how—

Senator ROCKEFELLER. Because you are right there with them.

Ms. JOHNSON. Right, exactly.

Senator ROCKEFELLER. I am in the awkward situation. The majority leader is in my office at this moment, I hate to keep him waiting.

I very much appreciate both of you being here, and this hearing is rapidly adjourned.

[Whereupon, at 12:06 p.m., the subcommittee was adjourned.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

PRODUCT STANDARDS: A CRITICAL COMPONENT OF EXPORT PROMOTION

Statement of the American Business Council of the Gulf Countries
before the
Subcommittee on Foreign Commerce and Tourism of the
Senate Committee on Commerce, Science and Transportation

May 24, 1990

Summary

1. There are hospitable, robust markets awaiting U.S. business throughout the world. However, our preoccupation with developments in Europe has blinded us to the urgency of cultivating those regions, such as the Gulf, where our competitors are closing us out on the ground floor.
2. Harmonization of product standards has become a key strategy of international trade development. The ABCGC believes that any discussion of American trade competitiveness must of necessity include a look at where America stands in its ability to promote its product standards abroad.
3. With regard to the promotion of U.S. standards overseas, there is a critical need for both private and public sector participation, acting in some coordinated fashion. The U.S. Government, like American business itself, has a vested interest in ensuring universal access to international markets for all U.S. goods and services.
4. The ABCGC has played an instrumental role in helping to create one model of collaboration between government and business: a U.S. standards pilot program of liaison to Saudi Arabia. This program is designed to keep the U.S. competitive in one area where we have steadily lost market share -- the strategically important Gulf. The pilot program has been underway only a few months, but it has already reclaimed substantial ground for U.S. trade.

Mr. Chairman and members of the Subcommittee, I am Richard A. Meade, Chairman of the American Business Council of the Gulf Countries (ABCGC), on whose behalf I offer this testimony. We appreciate the opportunity to testify today on export promotion before the Subcommittee and hope that the ABCGC can offer, from our vantage point "on the front lines," some fresh insights into America's competitiveness abroad.

The ABCGC is the coordinating body for the region's AMCHAMs, affiliate members of the U.S. Chamber of Commerce, and is widely recognized as the voice of American business in the Gulf. We help to represent the approximately 40,000 Americans who live and work in this vital region, and who are employed by nearly 700 American companies doing business in Saudi Arabia, Kuwait, Bahrain, Oman, Qatar, and the United Arab Emirates.

Mr. Chairman, our testimony is not a mere footnote to the general commentary you have already heard on America's trade picture. Rather, it goes to the heart of the matter, or what must be recognized as a fundamental component of successful U.S. exporting: the promotion of American standards, particularly product standards, abroad. I would like to organize my discussion today around three inter-related points.

First and foremost, we bring you the good news that there are hospitable, robust markets awaiting us not only in Europe, but in the developing world as well. These markets, like the Gulf, are ready today.

Second, American efforts to promote competitiveness have at long last begun to focus on a prerequisite of trade development -- the harmonization of standards around the world. America's near-exclusive focus on harmonization in Europe alone and our national failure to assure that U.S. standards are included in the formal codes of developing countries has resulted in the loss of precious market share to our competitors.

Third, the ABCGC believes that the new international standards pilot program that we have recently helped to launch provides an excellent example of the ways in which America's public and private sectors can work together to serve the national interest.

Mr. Chairman, before I elaborate, I would like to reiterate a theme presented earlier in these hearings by the U.S. Chamber of Commerce, of which the ABCGC is an affiliate. Mark Van Fleet, Director of Export Expansion for that organization, noted, "Given the budget deficit and the need to discipline federal spending, we simply must develop a better public-private partnership in the area of trade development . . . What we need is a national effort to overcome the obstacles faced by U.S. exporters." We concur with Mr. Van Fleet's assessment and are proud to be a catalyst, in ABCGC's own way, in helping to draw the American business community and the U.S. Government together.

Permit me, now, to continue with the three points that I have already outlined.

I. A United Gulf Market is Ready Now

The six countries of the Gulf have taken a lesson from the EC and have formed the Gulf Cooperation Council, adopting as its goal the formation of a regional common market, with the prospect of eventual merger into one single market. Saudi Arabia, as the most prominent member of this group, has taken the lead in drafting product specifications and codes for the region. The Saudis are currently in the process of writing more than 50,000 product standards, and other countries of the GCC are adopting many of these codes as they are written.

In total, the GCC region is a \$50 billion import market for the world's products. In 1989, the U.S. exported nearly \$13 billion in goods and services to the area, much of it stimulated by the "pulling" power of our overseas business community -- America's sales force on the front lines of the battle for market share.

Mr. Chairman, there is much ado about Eastern Europe these days, but Eastern Europe is a long-term investment. As we contemplate the sums required to revive those economies, we should first consider the financial stream immediately available from the Gulf. This bloc of six nations is already oriented toward free enterprise. The region has an abundant energy supply, is at an international crossroads, its governments are responsible and conservative, and its economies are on the verge of major expansion.

Most, for example, have embarked on large expansion programs in the energy sector estimated in the tens of billions of dollars. A foray to the Gulf last fall by the Department of Commerce with a "Matchmaker" program for small and medium-sized American firms resulted in immediate orders of more than \$2 million for 26 firms, with follow-up contracts in the works worth \$20 to \$30 million.

Meanwhile, Saudi Arabia plans to spend some \$15 billion on capital improvements to its petroleum products industries over the next decade alone.

The U.S. and Foreign Commercial Service has identified other industrial sectors as promising: a \$935 million annual auto parts and accessories market expected to grow at 5 percent per year; a \$2.4 billion operations and maintenance market, also growing at 5 percent per year; a \$450 million air-conditioning and refrigeration equipment market, growing at 12 percent per year; a \$380 million agricultural equipment market; a \$175 million computer and computer peripherals market; a \$138 million medical equipment market. Mr. Chairman, the list goes on and on.

The American Embassy in Riyadh has estimated that if standards in the Gulf states were harmonized for U.S. products, American exports would increase by as much as half a billion dollars per year. Over the long run, this would generate and maintain at least 15,000 additional jobs in the U.S. and would further generate a minimum of \$15 million in additional federal tax revenues.

II. Standards: The Ground Floor of Export Promotion

America's ability to transfer technology and products overseas is profoundly affected by the standards that are adopted in developing markets, where governments sit down and write thousands of specifications. In the days when American products were clearly preeminent, other nations would readily adopt our product specifications in their codes. Today, the world has many products and standards to choose from. It is a buyer's market.

Realizing this, our European and Asian competitors have deployed teams of advisors to host countries around the world to write specifications favoring their exports, covering everything from the shelf life of food to the color of ground wires in air-conditioners. Despite the existence of voluntary international standards organizations, to which many American industries and standards associations belong, international standards-writing has also become very much a government-to-government business.

For the past ten years, the Saudi government has enjoyed the assistance of standards advisors from such nations as Japan, Germany, France, Britain, Holland, Finland, India, New Zealand, and even Singapore. The United States has had no one in that position, much to our detriment. During this period, not coincidentally, U.S. market share in Saudi Arabia has plummeted nearly 20 percent. In recent years, Japan, with as many as nine or ten advisors there at a time, has replaced the United States as the leading exporter to the region, while some American products have been held up at the Saudi docks for failure to comply with new Saudi standards. Mr. Chairman, it is high time that we turn this situation around.

III. The SASO Pilot Program Exemplifies Crucial Private/Public Sector Collaboration

In 1988, with much encouragement from the ABCGC and others, Congress authorized an international standards pilot program designed to defend American market share in the Gulf and, by extension, elsewhere around the world. This program, the first of its kind, is a model of the successes that can be achieved when the private and public sectors cooperate to work in the national interest to promote American exports. This modest program, conducted under the auspices of the National Institute of Standards and Technology (NIST), is jointly funded by the U.S. Government and American business.

Mr. Chairman, the program has been a success precisely because of the cooperation that has been forged between our private and public sectors, the same sort of collaboration that has helped our competitors to move out in front of America in export promotion.

The pilot program recently sent an American product standards specialist to Saudi Arabia to serve as liaison to the Saudi Arabian Standards and Specifications Organization (SASO). He has been extremely successful in that position because he carries with him not only the backing of American business, but also the imprimatur of the U.S. Government, a prerequisite laid down by the Government of Saudi Arabia. Because of his unique ability to work with all parties concerned about promoting U.S. trade in the Gulf -- private and public sector alike -- this representative in Saudi Arabia is positioned to reflect the interests of the full spectrum of

American industry.

The private sector brings much to this program because it understands market development and preserves the voluntary, consensus-based standards-setting system of the United States. Moreover, a panel of private sector experts, drawn from trade groups and standards-setting associations, working in tandem with the program. The U.S. Government, too, has contributed significantly to the new program. Government sponsorship provides entree where there would otherwise be none, and a government role in the program's oversight helps to ensure universal representation for American industry, including small business.

The U.S. standards specialist has been in Saudi Arabia only two months, Mr. Chairman, but his presence there has already begun to make a difference. In addition to setting up an office and learning the ins and outs of SASO, he has:

- o sent more than 50 draft standards to NIST for input from American standards-writing organizations.
- o initiated an important new study to determine whether Saudi Arabia should retain or replace its present residential distribution voltage of 127 volts, which would exclude all American electrical appliances from this market.
- o begun making arrangements to send a SASO metrology expert to the NIST laboratories in the U.S. with a view to establishing time and frequency management facilities at those laboratories.
- o been explaining to SASO officials the U.S. voluntary method of standards development, and has been encouraging SASO to send a delegation to the U.S. to discuss adoption of American policies and procedures.

When additional, appropriate federal matching funds for this program are in place, it is envisioned that the program will also bring in technical personnel to Saudi Arabia, on a rotating basis, to participate in meetings and technical assistance groups, or TAGs. The program will also be able to establish a library of U.S. standards on site, and to work with SASO to modify its certification program to include "point of origin" testing to benefit U.S. manufacturers. These are programs that other nations have had in place in the Gulf for years, and are essential to the U.S. if we hope to turn the tide in the Gulf and elsewhere.

* * *

In conclusion, Mr. Chairman, the ABCGC believes that there are hospitable, robust markets awaiting U.S. business throughout the world. Harmonization of standards, to the benefit of U.S. industry, is a critical component of America's export promotion efforts, and no serious discussion of U.S. trade development can afford to be without input on America's ability to promote its standards and specifications worldwide. In our view, collaboration between the U.S. Government and American business is a crucial part of this effort.

My thanks to you and the Subcommittee, Mr. Chairman, for the opportunity to express the views of the American Business Council of the Gulf Countries.

STATEMENT OF THE NATIONAL FOREST PRODUCTS ASSOCIATION

The following statement is submitted to the Subcommittee on Commerce and Tourism for inclusion as part of the permanent record of the subcommittee hearing on export promotion held May 24, 1990.

The National Forest Products Association is a national industry trade association representing the vast majority of the nation's production and sale of lumber and processed wood products. The forest products industry is an internationally competitive, export oriented industry, committed to continued growth in overseas markets. These comments will focus on some of the industry's ongoing efforts to expand the promotion and export of its products overseas. Additionally, it will outline how government sponsored export promotion and financing programs have aided the continued growth of export markets for U.S. processed wood products. Finally, this statement will highlight some of the continuing difficulties our industry faces in accessing the full range of export financing programs available and present recommendations on how Congress can ensure that wood and processed wood products be accorded full and fair access.

Wood Products Super 301 Case with Japan

The U.S. wood products industry is competitive internationally, in both prices and quality. On average, U.S. production costs are far lower than in Japan, yet the U.S. industry has not been reaching its full export potential with that country. A U.S. Department of Commerce report published in April 1989 identified many of Japan's tariff and non-tariff wood products. In an effort to remove Japan's barriers and increase exports of processed wood products, the Administration in the spring of 1989 identified Japan's market access barriers to forest products as a priority practice for negotiations under the Super 301 provision of the 1988 Omnibus Trade Act. Over the past year, Administration officials have been involved in talks to reduce barriers to wood products with the government of Japan.

On April 25, the U.S. and Japan reached agreement on the wood products negotiations under Super 301. Bush Administration and industry representatives concur that the agreement is highly favorable to the U.S. wood products industry. Significant progress has been made toward achieving greater openness of the Japanese market for wood products including the areas of building codes, tariff misclassification, certification, and standards. The U.S. and Japanese governments have agreed to the modification of Japanese trade practices that prevent the U.S. wood products industry from increasing its sales of value-added products in the Japanese market. Although the agreement will not eliminate all barriers, the changes should allow the U.S. industry to increase exports of processed foreign wood products by over three quarters of a billion dollars once all the changes are made.

While the exact terms of the final agreement must still be worked out, and full implementation insured, there is reason for optimism. A lot of follow-through will be needed if this is to amount to anything at all, and the industry urges a high-level government effort to ensure appropriate implementation and enforcement. Congress also has a role to play in ensuring implementation. Under Super 301, USTR is required to report to Congress on April 30 of each year regarding compliance with the agreement. Congress must carefully examine the evidence and determine whether it demonstrates -- in the form of increased exports -- substantial progress toward implementation and the goal of eliminating the trade barriers.

Industry's Use of Government Sponsored Export Promotion Assistance

The Targeted Export Assistance (TEA) program was created in the 1985 Farm Bill and was intended to provide economic relief to U.S. commodities aggrieved by foreign unfair trade practices. Over the past five years, this program has become one of U.S. agriculture's most effective weapons to promote and expand exports. By utilizing TEA assistance in countries as diverse as Japan, Spain, Korea, Taiwan, the Netherlands, the Dominican Republic, and the United Kingdom, the U.S. wood products industry has been able to improve perceptions and gain acceptance of our products, and dramatically increase export sales, thereby reducing the impact of unfair foreign trade practices.

Unfair trade practices of foreign countries will continue to be of concern to our industry in 1990 and beyond. TEA remains one of the most effective ways to redress these concerns, thereby helping to lower the U.S. foreign trade deficit. The wood products industry strongly supports the reauthorization of TEA at a full funding level of \$325 million annually. Reductions in this valuable program would jeopardize industry efforts to expand existing markets and realize potential new markets. The industry also believes that legislating new guidelines would reduce the industry's flexibility to respond quickly to emerging market opportunities such as those in Eastern Europe.

Using Credit Guarantees to Open New Markets for Wood Products

The wood products industry has been successful in using the Commodity Credit Corporation's (CCC) short term export financing program (GSM 102) for several years. The utilization of this credit program has helped open markets in foreign countries that would not normally purchase U.S. wood products. Under GSM 102, the CCC provides credit guarantees to a group of selected countries, allowing U.S. exporters to receive payment upon shipment, while the buyer gets financing. The GSM 102 program has been of great benefit to the wood products industry and we support its reauthorization.

Once example of how this program has been used successfully

to open foreign markets can be found in the wood product industry's experience with Iraq. Prior to our industry's use of credit guarantees, sales of wood products to Iraq never reached \$1 million. Since approval for short term credit guarantees under GSM 102 in 1987, a virtually nonexistent market has expanded to approximately \$160 million in wood and processed wood products sales to Iraq in 1988. Iraq became the eighth largest market for softwood lumber.

However, despite these successes, the industry has been limited to less than the full credit terms available under GSM 102, and has not had access to the full range of export financing available through intermediate term credits under GSM 103, and with two recent exceptions, has not been approved for P.L. 480 Title One programs. It has been argued that the wood products industry is not eligible for P.L. 480 programming because the program is intended for use with "food commodities". For GSM 102, credit terms for wood products have been limited to no more than 2 years and often only one year, whereas the terms for other agricultural products are longer. Access to intermediate credit terms under GSM 103 have been completely denied to our industry.

An increased demand for wood and processed wood products overseas has increased export sales dramatically, and a large potential exists through housing and shelter programs initiated in Latin America and other developing countries. However, to further these programs, the industry needs low interest credit and long-term credit guarantee programs, otherwise these markets developed by our industry will be lost to other countries that provide easy credit and other incentives. Full access to USDA credit programs could mean several hundred million dollars in new sales for the industry with the potential for developing significant new markets for the future.

Arguments for Exclusion

The main argument for excluding wood and processed wood products from using the full range of financing centers on whether wood and processed wood products are rightly considered "agricultural" products. Some government agencies argue that wood and processed wood products are not agricultural, but instead manufactured products. Under this definition, the U.S. might be perceived as deviating from existing international guidelines if it were to use more than two year GSM 102 credit guarantees for wood products.

However, the USDA and the wood products industry believe there is overwhelming precedent for classifying wood and processed wood products as an agricultural product eligible for the full range of USDA credit guarantees. U.S. agricultural policy in the GATT has included forest products as an agricultural product. The GATT rules allow each nation to determine which products shall be classified as agricultural. Congress has also expressed its intent that wood products be

classified as "agricultural" through congressional subcommittee report language, statements of intent, and statutory language in the 1988 Omnibus Trade Act.

The opposition to the wood products industry's use of P.L. 480 is different from the one raised against the GSM programs. Here the key argument is that P.L. 480 is strictly for use with food products. Historically the program has been used for food items and some feel it should remain so.

The wood products industry believes it is important to understand that P.L. 480 is a "developmental program" for use in countries that are in need of the necessities of life. It is our contention that the necessities of life include not only food, but also clothing and shelter -- and there is historical precedents for use of P.L. 480 programming for non-food items.

Recommendations

The wood products industry believes there is a need for Congress to further specify the language on the use of wood products under GSM 102, GSM 103, and P.L. 480. While provisions included in the 1988 Trade Act (P.L. 100-418) were intended to clarify the eligibility of wood products for export financing, the language contained within the act does not specifically mandate their use. Hence, the vagueness of certain areas of the law have been used to defy the intent of Congress that wood and processed wood products be accorded full and fair access to these programs.

1. Congress should consider statutory language mandating the active use of all USDA concessional (P.L. 480) and credit guarantee (GSM 102/103) programs to promote the export of all semi-processed and processed wood products as set forth in the harmonized system, Chapter 44.
2. Additional statutory language should be considered to define wood and processed wood products as agricultural commodities, and as such, certify their eligibility for the full range of export credit guarantees with the same terms and conditions available to all other agricultural products.
3. Congress should help preclude further challenges to the use of export financing for wood products by providing the Secretary of Agriculture with the mandate and full authority to fully utilize the export credit guarantee program for wood products.
4. Congress should clarify that providing wood products for shelter is both a humanitarian and export development activity fully eligible for funding under the P.L. 480 program.

Conclusion

The wood and wood products industry is an internationally competitive, export oriented industry committed to continued growth in overseas markets. The key to long term development of additional export markets in less developed, developing, and intermediate income countries is access to financing. Our industry believes it is critical that the directives of Congress be followed and that wood and processed wood products be allowed -- like any other agricultural product -- to utilize these government sponsored financing programs to the fullest extent possible.

THE WHITE HOUSE

Office of the Press Secretary

THE BUSH ADMINISTRATION'S TRADE STRATEGY

FACT SHEET

The President today outlined the two major elements of his Administration's trade strategy: trade policy and trade promotion. Both elements are vital in working to achieve the Administration's goal of a world in which entrepreneurs, not governments, determine how industries and farms compete, and how nations trade.

Trade Policy

The Uruguay Round. The Administration's highest trade priority is to strengthen the international trading system by successfully concluding the Uruguay Round of global trade talks by December. Approximately one-third of world trade, or \$1 trillion annually, is inadequately covered by internationally agreed rules of fair play. The Uruguay Round was initiated (in 1986, in Punta del Este, Uruguay) to correct these deficiencies. Nearly 100 countries are participating in the negotiations. By December 1990, the Administration seeks to conclude Uruguay Round agreements which:

- o Fundamentally reform international agricultural trade by achieving substantial progressive reductions in export subsidies, barriers to market access, and internal supports, as well as reaching an agreement harmonizing sanitary and phytosanitary regulations. The Administration's aim is to allow farmers to grow what they want, when they want, and earn a decent income without government interference.
- o Increase market access for goods by significantly lowering tariff and non-tariff barriers.
- o Establish rules governing trade in the "new areas" of services, intellectual property rights, and trade-related investment measures.

- o Limit trade-distorting government subsidies.
- o More fully integrate developing nations within the global trading system, and ensure that the rules of international trade are applied to them.
- o Create a swift, sure and effective way to resolve trade disputes.

Bilateral and Regional Initiatives. The Administration continues to open foreign markets and eliminate trade barriers through a broad range of bilateral and regional trade initiatives. These initiatives aim to reinforce trends toward market-driven policies and eliminate unfair trade practices and barriers that inhibit opportunities for U.S. exporters. They are meant to complement the market-opening goals of the Uruguay Round. Such initiatives are being pursued with a number of countries, including:

- o Japan. The United States is engaged in a wide range of initiatives with Japan designed to ensure that the Japanese market operates in an open, competitive fashion. In the first 17 months of the Bush Administration, bilateral talks with Japan have opened markets in several key areas, including supercomputers, satellites, forest products, and telecommunications.
- o Canada and Mexico. In close cooperation with Canada, the Administration continues to work to implement the provisions of the U.S.-Canada Free Trade Agreement. The Administration is also working with Mexico to develop closer trade and investment ties and promote Mexican economic development under the new bilateral understanding reached by Presidents Bush and Salinas in October 1989.
- o EC-1992. The Administration is actively monitoring the European Community's drive toward a single market by 1992 to ensure it does not result in new trade barriers at the EC's frontiers, while lowering them internally. Such efforts will include continued bilateral consultations and, where necessary, actions in multilateral fora.
- o Eastern Europe. The Bush Administration is negotiating trade and/or investment agreements with a number of Eastern European countries. To date, the United States has completed a trade agreement with Czechoslovakia, a Business and Economic Agreement with Poland, and has held preliminary discussions with Hungary on an investment treaty.

Implementation of Trade Laws. The Administration is using U.S. trade laws to complement its multilateral and bilateral

objectives of free markets and fair trade. This includes implementing 1986 Trade Act provisions, including super 301, special 301, telecommunications, and "Buy America" provisions in ways that further U.S. multilateral goals.

Trade Promotion

U.S. trade policy successes, as well as dramatic economic and political changes taking place around the globe, are creating tremendous opportunities for U.S. business men and women.

Commercial Opportunities Initiative. President Bush has directed the Economic Policy Council to undertake a Commercial Opportunities Initiative to assist U.S. exporters in their aggressive pursuit of these opportunities in international markets.

As the global economy evolves, the federal government must adapt its techniques for working with U.S. business to promote American goods and services abroad. Therefore, the cornerstone of the President's Initiative is the Trade Promotion Coordinating Committee (TPCC), which will be chaired by Commerce Secretary Robert A. Mosbacher. The TPCC will, for the first time, unify and streamline federal trade promotion activities, including:

- a Collection and analysis of market information;
- a Trade events, including trade missions, and identification of agents and distributors;
- a Dissemination of information on export financing;
- a Representation of U.S. business interests with officials of foreign government and international organizations;
- a Assistance in identifying joint venture partners and foreign research and development projects; and
- a Counseling on foreign standards, testing and certification requirements.

The President directed the TPCC to promote American businesses in key emerging markets with Presidential Trade Missions headed by the Secretary of Commerce.

TPCC members include the Departments of Commerce, State, Treasury, Agriculture, Defense, Energy, and Transportation; the Office of Management and Budget; the Office of the U.S. Trade Representative; the Council of Economic Advisers; the Export-Import Bank; the Overseas Private Investment Corporation; the United States Information Agency; the Agency for International

Development; the Trade and Development Program; and the Small Business Administration. Other agencies will be included as appropriate. The TDCO will operate within existing resource levels and legal authorities.

"E" Awards. The President's "E" Award was created in 1961 to recognize persons or organizations that contribute significantly to increasing U.S. exports. The "E Star" Award was created in 1969 to recognize continued superior performance in increasing exports. In 1969, the exporting efforts of 44 companies were recognized with "E" Awards and 14 with "E Star" Awards.

The Commerce Department chairs the selection committee for awards. Membership includes the Departments of Agriculture, Interior, and Labor; the Small Business Administration; and the Export-Import Bank. "E" Award winners receive a certificate signed in the name of the President by the Secretary of Commerce, a lapel pin, and a white flag with a blue E to fly over their plant or office.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

May 23, 1990

REMARKS BY THE PRESIDENT
AT CEREMONY TO HIGHLIGHT WORLD TRADE WEEK
AND TO PRESENT "E-STAR" AWARDS

The Rose Garden

2:04 P.M. EDT

THE PRESIDENT: To distinguished members of Congress and other guests, welcome to the White House. It's a pleasure to have two of our administration's top trade team people here today -- Secretary Bob Mosbacher and Ambassador Carla Hills. These two are working every single day, day and night, to open markets for American goods and services. And in my view, they're successful, and I am grateful to both of them.

And I also want to single out Susan Engleiter, head of the SBA here; and all members of the Congress, once again, welcome.

For American business, confronting protectionist barriers is like having a door shut rudely in your face. And more and more American business is looking to Carla to open the door and Bob to help them through it. But in the end it is up to American business to step beyond the open door to enter foreign markets. And that's why I'm here today to present the "E" Awards, honoring American firms that have been such outstanding competitors abroad. Later on I'll let you know what the "E" stands for. But first -- it does not stand for Elvis, I was asked to point out. (Laughter.)

Before I get to the awards, let me talk trade. I believe the protectionist path leads to closed markets, lower living standards, unemployment in our country. And so our direction is to open markets, expanding trade and negotiating a set of clear and enforceable rules to govern world trade. And this is the path to prosperity and growth and high employment. And that's why my top trade priority for this year is an ambitious multilateral agreement. We must conclude that Uruguay round of global trade talks by December. And unfortunately, world trade has outgrown the rules of the GATT, of the General Agreement on Tariffs and Trade, that served us so well for four decades.

The United States and almost a hundred other nations, representing more than 85 percent of the world's trade, are working with us to revise and improve GATT's rules. And this is what we're striving to achieve.

First, we seek to reform agricultural trade, a market inadequately covered by GATT rules and badly distorted by subsidies and trade barriers that cost farmers and consumers alike hundreds of billions of dollars. There simply cannot be a successful conclusion to the Uruguay round without fundamental agricultural reform.

Second, we want to expand market access. We challenge our trading partners to join us in creating a world of sharply reduced tariffs.

Thirdly, the United States wants to curb hundreds of billions of dollars of trade-distorting subsidies. And we believe that entrepreneurs should compete on the basis of price and quality, not on the basis of government's deep pockets.

MORE

Fourth, we want to ensure that the rules we have and those that we are negotiating, apply to developing countries, so these countries are no longer at the margin of the trading system.

Fifth, we want to develop fair rules for new areas -- services, investment, intellectual property -- not covered under current GATT rules.

Sixth and finally, we want to create swift and effective means to resolve trade disputes.

All told, we're striving to incorporate roughly \$1 trillion worth of goods and services -- a third of the world's trade -- that is not sufficiently covered by rules of fair play.

In our efforts, we will, of course, work closely with our friends in the Congress and the business community as well; especially the private sector advisors, many who are here today. But time is short; our task is great. I call on our trading partners to move these negotiations forward at the Organization for Economic Cooperation and Development meeting this month, and at our Houston Economic summit in early July.

This round of GATT is an ambitious undertaking. The last, best chance for the world to enter the next century with free and fair trade for all. So let me be blunt: to the United States, no agreement is better than a bad agreement.

Even as we're driving at full speed to complete the round, the United States is also making progress in market-opening negotiations with Japan; in keeping the flow of goods and services open with Canada and Mexico; by intensifying our dialogue with the dynamic states of the Pacific Rim; and by ensuring that America will have access to Europe after creation of this historic single market in 1992.

We're also negotiating trade and investment agreements with the democratic governments of Eastern Europe and engaging in market opening initiatives with Latin America. They stand to reap enormous gains from the Uruguay round and other steps to integrate their economies into this big global trading system. But the United States will also gain from their new found freedom to invent, to invest, and to imagine.

Our objective is to anchor these countries in the ideal of freedom; economic as well as political freedom. And so we're striving for free trade, not just because it is good for America, but because it is good for all mankind.

As the winds of freedom blow down old barriers and liberalize markets from Managua to Warsaw, we must be prepared to take advantage of this opportunity, historic opportunity, to compete and to win. And that's why today I directed the Economic Policy Council to undertake a Commercial Opportunities Initiative to encourage American business to move competitively into foreign markets.

The EPC will implement this initiative through a working group called the Trade Promotion Coordinating Committee -- TPCC -- to be chaired by Bob Mosbacher, our Secretary of Commerce. This committee will, for the first time, harness all the resources of the federal government to serve American exporting businesses. It will provide a focal point for business and industry in the markets of the world's emerging democracies. And I'm also directing the committee to promote U.S. businesses in new or neglected markets through official presidential trade missions. Missions to be headed by the Secretary of Commerce.

And so that is an overview of our trade picture. And now for the "E" Awards, a word. At the height of the Second World War, "E" Awards were presented to those war plants in recognition of

MORE

- 3 -

excellence in production. In a time of peace, we used the "E" symbol to celebrate excellence in American exports. And as it turns out, this is a very appropriate time to confer these awards.

You see this week, the Commerce Department is joining with state and local governments, international trade groups and universities throughout the nation to celebrate World Trade Week. And this week I think we really have something to celebrate: last Thursday's announcement that U.S. exports in March hit \$33.3 billion -- a record high.

And this is yet another sign that America remains a superpower in world trade. But America's exporting strength is no accident, as all of you here today know. It's the result of the hard work of leaders, like our Secretary of Commerce, and our dynamic Trade Representative, Carla Hills, here with us here today. But first and foremost, it's because of the leadership of the American worker, the American farmer, the American entrepreneur.

You and all the other "E" and "E" Star Award winners that we honor today, started the decade off in a winning spirit. And you've done something more than just represent your firms. You've represented American drive and creativity to the world. And for that you have our gratitude and my congratulations and my thanks.

And so it's a pleasure now to join Bob and Carla in presenting this prestigious award for exporting excellence to 11 outstanding companies that have earned the highest level "E" Award, the "E" Star.

And now, Bob, if you will take over from here.

(The awards are presented.)

THE PRESIDENT: Thank you all very much. Thank you for coming, and congratulations to all these winners. Now, everybody else go out there and work harder. Thanks a lot.

END

2:18 P.M. EDT

